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Taxation and Private Investment

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Preface

THIS REPORT ON Taxation and Domestic Private Investment is a companion to our earlier study on Taxation and Foreign Investment. When Taxation and Foreign Investment was published there was a demand that a similar study should be made of the impact of taxation on domestic investment, for it was recognized that an active foreign investment was closely bound up with an active domestic investment.

Certain assumptions are basic to this study. One is that the social ends of our fiscal system should be clearly recognized as part of our concept of a socialistic pattern of society which has become an accepted goal in India. Secondly, since the private sector will continue to play a significant role in our present mixed economy, no fiscal system should operate in such a way as to militate against its efficient working.

Our approach in this study has, therefore, been to see if there are any parts of the tax system which without prejudice to the socially agreed goals cannot be reformed so as to enable the economy to function more efficiently. What, if any, are the factors which adversely affect the capacity and willingness of the business community to invest? At what level and in what manner should a balance be struck between (a) the need for large revenue of the Government for its functions including developmental and investment functions, (b) the need for reducing inequalities and (c) the need for strengthening the forces of private saving and investment. Undoubtedly, these are difficult considerations to be balanced. But this study is an attempt to indicate directions in which certain improvements in the tax system seem to be necessary and feasible.

It may be stated at the outset that our tax system had in the past been designed primarily to raise sufficient revenue for the expenditure of Government on administration and allied services. When the basic framework of the Indian tax laws was formulated, economic growth was not a concern of the Government and the promotion of savings and investment was not, therefore, accepted as a goal of fiscal policy.

After Independence and particularly since 1956, the year of inauguration of the Second Plan, the tax mechanism was pushed into high gear to meet an enormous increase in the needs of the developing eco-

nomy. Not only have rates been raised but some taxes entirely new to the country have been introduced.

However, in the search for additional resources and the attempt to mitigate disparities of income and wealth, the vital objective of the tax system which is to step up the rate of savings and investment not only in the Government sector but also in the private sector, in order to accelerate economic development, should not be given a secondary place.

It is of basic importance to promote private savings so that private investment which is an integral part of the programme of planning is not unduly restricted. There is another reason why private savings should be fostered. Savings on the Government account have shown a decline over the last decade, and to finance the rise in capital formation in the public sector, Government has had to increasingly rely on private savings. The dependence of the Government's own programme on private savings is likely to continue. It may also be noted that experience all over the world shows that the propensity to save on the part of Government is almost always lower than that of the business sector and frequently lower than that of the consumer sector.

It is in this context that the National Council undertook this study of the economic effects of the tax system on private savings and investment.

Our report analyses certain situations in which there is a conflict between the social objective and the economic goal This conflict arises particularly when the pace of progression of taxation which results from the combined incidence of super-tax and wealth-tax reduces, with every addition to one's wealth through savings, the disposable income arising from the combination of earned income and productive wealth While recognizing the need for wealth-tax in a country where the disparities are so marked, the study reveals the adverse effect that such a progression can have, in course of time, on the incentives to save and the initiative to take risks, which constitute the very essence of private enterprise The result might well be the opposite of what the Government would seek to achieve. It might result in a lower tax yield by discouraging the creation of a larger tax base.

The study takes full note of the fact that Government has introduced several fiscal devices to encourage corporate savings. However, it also calls attention to the situation that the tax policy does not give the same importance to the role of consumer savings, which in fact account for a high proportion of aggregate savings in the economy. The expenditure-tax was introduced with this objective in mind, but it constituted

only a negative and probably not very effective approach. Economic virtues can hardly be stimulated by negative treatment alone. Tax rebates are provided in respect of life insurance premiums and contributions to provident funds but their scope is very limited. It may be advisable for the Government to consider the need for providing further inducements to encourage savings. In certain countries there is a a special tax-free allowance for individuals, whereby a prescribed percentage of the income is exempt from tax, provided it is utilized in acquiring new share capital of a company engaged in business approved by the Government. Such treatment is usually extended also to investments in Government securities.

Since the corporate form is, and will continue to be, of great importance for private enterprise in order to mobilize resources for investment, the study examines the impact of taxes on the flow of such funds to the corporate sector as would be necessary to increase the tempo of industrial enterprise.

The findings and recommendations of this study may be summarized here. Our review of the trends in investment shows that while the overall climate for private investment has been favourable, there are certain disquieting features. For instance, the rate of aggregate savings has not kept pace with the rate of investment. Corporate savings in 1958 were actually lower than in 1955.

As regards personal taxation, the cumulative impact of income and wealth-taxes on entrepreneurs in the higher income groups, who play a crucial and dynamic role in creating new enterprises and pioneering new industries, seriously curtails their capacity to save. As mentioned earlier, after a point the disposable income of an individual declines with every addition to his wealth through savings. At such a level of income, the tax liability is generally met at the expense of savings which in the case of most businessmen are likely to be invested. Since the incentive to save is virtually eliminated at this level, there is a sound economic justification for slowing down the pace of progression of taxes at very high income levels.

The tax system is so devised that at the higher levels tax liability on account of income and wealth-tax exceeds 100 per cent of the total income. Two points deserve consideration here. There should be more of a tax differentiation between wealth productively employed and wealth which is unproductive. Secondly, the tax liability should not exceed hundred per cent of the tax-payer's total income. Such a tax ceiling would leave scope for the operation of the wealth-tax in all cases and would not lead [illegible] y la[illegible] oss of revenue.

An examination of the structure of corporate taxes shows that whereas the basic tax of 45 per cent introduced by the new scheme of company taxation is fair and reasonable, the intercorporate dividend tax makes the aggregate burden on intercorporate investments too heavy. A reduction in this tax would encourage both foreign and domestic investment. Another deterrent to investment is the tax on bonus shares which discourages reinvestment of company profits. Its imposition on bonus issues from the share premium account is illogical.

There is a need for introducing some flexibility in the application of Section 23A which relates to closely-held companies. It is suggested that a provision should be introduced whereby the special needs of small and growing enterprises are kept in view when imposing the penal tax under this Section.

Our findings are based on economic analysis and reveal the ways in which the tax system impedes, at certain points, the growth of strategic sources of private investment. It is beyond the scope of this study to suggest the administrative methods by which improvements can be effected. The implementation of the recommendations contained in this report would not be inconsistent with the social purposes of our fiscal system.

The National Council received the full cooperation of a number of persons and companies who replied to our questionnaires and supplied us with other information that we needed for our study. Some industrialists and business executives placed their views freely at our disposal. We also had the advantage of discussions with those fully conversant with direct tax administration in our country. I wish to convey my deep appreciation to all those who have assisted us.

In the preparation of this study I had the invaluable assistance of my colleagues, Mr. Pritam Singh who had worked on our previous study on Taxation and Foreign Investment and Dr. R. J. Chelliah.

NEW DELHI
December 1960

P. S. LOKANATHAN
Director-General

Contents

List of Tables

List of Appendices

List of Graphs

Chapter 1
Introduction

Setting of the Problem

Fundamental changes have taken place in the structure of direct taxation in India since the inauguration of national planning in 1951. In the last decade or so, the Government has not only introduced changes in the rates of taxation but has tried to adapt the entire structure of direct taxes to the changing needs and conditions of a developing economy. On the one hand, the growth of the public sector, under the compulsions of planned economic development, has greatly enlarged the needs of the exchequer; on the other, the adoption of "socialist pattern of society" as the national goal has called for measures calculated to reduce inequalities in the distribution of income and wealth. In an attempt to evolve an integrated structure of taxation that would help achieve the twin objectives of higher yields and mitigation of inequalities, the Government has imposed in recent years a number of new taxes on income and wealth. The new direct taxes imposed since 1957—the expenditure-tax, the wealth-tax and the gifts-tax were intended in part to plug loopholes in the tax structure and bring about a greater measure of equity as between different classes of tax payers. But, undeniably, they have added to the total burden of direct taxes, especially in the case of individuals in the top income brackets who are likely to possess considerable amounts of wealth.

The increasing reliance on taxation to finance development expenditure, the introduction of new taxes and the consequential steady rise in tax liabilities have, not unnaturally, led to complaints on the part of some representatives of the private sector. It is alleged in several quarters that the present high rates of taxation of income and wealth are seriously undermining the incentives to save and invest of individuals as well as corporations. A perusal of the speeches of company chairmen and of the many articles on taxation published in financial journals in recent years shows that the most common criticisms of the tax system ar
criticisms voiced in other countri

Personal Taxation

The direct-taxes structure underwent a major change during the years 1956-58 when capital gains, wealth, expenditure and gifts were subjected to taxation. Ultimately all these taxes must be paid out of income (except when tax liability exceeds income), but the different bases of these taxes represent an attempt towards a comprehensive coverage of the tax payer's spending power. The composite base of taxation is expected to yield greater revenues, close the loopholes of evasion, check consumption and reduce economic inequalities.

Income-tax

The income-tax was first introduced into the country a century ago but was abolished shortly afterwards It was re-imposed in 1866 and has had an uninterrupted existence since then. As taxation of agriculture is constitutionally reserved for the States, the Central levy does not fall on agricultural incomes. In 1958-59 the total number of assessments[1] was 784,766 (individuals plus Hindu undivided families) and the total tax payable was Rs. 106.58 crores.

The taxation of income today has three components—income-tax, super-tax and surcharge on both. Since 1939 the rate structure has been built on the "slab" system. The rates increase progressively with a rise in each slab of income. The taxes on each slab are calculated according to the scheduled rates and then added up. By this method the effective rate of taxation rises gradually as income increases and in most cases the effective rate of taxation is considerably less than the marginal rates applicable to the top slabs of taxable income.

Income-tax is payable on annual incomes above a certain level; this taxable minimum has often fluctuated. In 1953-54 it was raised from Rs. 3,600 to Rs. 4,200 for administrative reasons. It was lowered to the present level of Rs. 3,000 in 1957 on the ground that this income was a very large multiple of the average per capita income in the country. (These income figures relate to individuals, the exemption limit for Hindu undivided families is at double the level for individuals.) Income-tax rates rise progressively from 3 per cent on the first slab of income to a maximum of 25 per cent on income above Rs. 20,000. In addition to this, super-tax falls on incomes above Rs. 20,000, the rates

[1] Since the Central Board of Revenue statistics give only the number of assessments completed in a year, it is not possible to give the exact number of assessees in that year. A number of assessments for earlier years may have been completed during that year while some may be carried over to the next year However, this figure may be taken as a rough indication of the number of assessees.

rising from 5 per cent to a maximum of 45 per cent which is operative above the level of Rs. 70,000

There are some important exemptions. Interest from National Plan Savings Certificates and Treasury Savings Deposit Certificates is tax-free. As already explained, incomes from agricultural sources are excluded from Union taxation. The limit up to which donations for charitable purpose qualify for exemption from tax was increased in 1960 to 7.5 per cent of total income or Rs. 1.5 lakhs, whichever is less. Relief for married tax-payers was introduced in 1955 in the form of a tax-free slab; today the free slab for married persons is Rs. 3,000, for the unmarried it is Rs. 1,000. A child allowance of Rs. 300 per child up to a maximum of Rs 600 was introduced in 1957. But these reliefs for marriage and parenthood are not available to incomes above Rs. 20,000 per year.

Abatements—or a reduction in the rates of taxation—are afforded in certain cases. The tax differentiates in favour of earned incomes. The principle of differentiation was first introduced in 1945 in the form of an allowance free from income-tax but not super-tax. Under this scheme the tax-payer could exclude from his taxable income a certain proportion subject to a maximum limit. The amount of this exemption was varied from time to time. For a short period (1946-47 to 1949-50) the relief was extended to the super-tax through a lower schedule of rates on earned income. In 1955-56 a change was introduced by which the amount of the allowance was progressively reduced for incomes above Rs. 25,000 till it disappeared at the level of Rs. 45,000. Since 1957 the relief has been given in the form of a lower surcharge on earned incomes than on unearned incomes. Earned incomes pay a surcharge of 5 per cent up to Rs. 1,00,000 and above this level the surcharge is raised to 10 per cent. For unearned incomes there is a uniform surcharge of 20 per cent. However, no surcharge is levied on incomes below Rs. 7,500, whether earned or unearned. Further, a rebate on income-tax (but not on super-tax) is granted for provident fund contributions and life insurance premiums up to one-fourth of total income subject to a maximum of Rs 8,000

Table 1 presents the effective rates of taxation at selected income levels, earned and unearned. These rates include income-tax, super-tax and surcharges; and they apply to unmarried persons. The rates applicable to married persons are only slightly different.

During the past decade the income-tax burden has appreciably increased In 1951 a surcharge of 5 per cent on income and super-taxes was introduced for incomes above Rs. 7,200. The income level

attracting super-tax liability was lowered in 1955 from Rs 25,000 to Rs. 20,000. Super-tax rates were increased in 1956-57 pushing up the maximum marginal rate (income-tax and super-tax combined) to 91 9 per cent on unearned incomes. With the introduction of new personal taxes in 1957 the maximum marginal rate was reduced to 77 per cent for earned and 84 per cent for unearned incomes. As against this the tax on unearned incomes between Rs 36,000 and Rs. 1,00,000 was increased and the taxable minimum was lowered. Changes in effective tax rates at certain income levels brought about by the Finance Act, 1957 are shown in Table 2. It will be observed that:

(a) The proportionate benefit of reduction in the incidence of new tax rates on earned income increases generally as the income increases and the reduction in absolute amounts is significant at income levels over Rs. 1,00,000 or so, which are more relevant to non-salary earned incomes. The purpose is to provide an incentive particularly for those persons who themselves carry on their business or profession.

(b) In the case of unearned income, the proportionate benefit of reduction in the new tax rates increases at first up to the income level of about Rs. 20,000 and then starts declining till the new rates exceed the earlier rates in force in 1956-57. But at an income level somewhere between Rs 1.5 lakhs and Rs. 2 lakhs, the incidence of the new rates again becomes lower than that of the earlier rates. This was done in view of the introduction of the wealth-tax.

A comparison of the tax burdens in India and seven advanced countries over the income range £1,000 (Rs. 13,333) to £25,000 (Rs. 3,33,333) is made in Table 3 and depicted in Graph I. Only Norway among these advanced countries imposes heavier tax rates than India over the entire range. The effective rate of taxation is higher in India than in the United States, Canada and France throughout the range. India tax rates are higher than the British tax rates for incomes between £2,000 to £15,000, but taxation is heavier in the United Kingdom above and below these limits The effective rate of taxation rises more steeply in India than in West Germany and the Indian rates are higher than the German rates above the £2,000 income level; in comparison with Japan, the situation is more or less similar. Another interesting feature is that only the U.S A., Canada, and the U.K. impose maximum marginal rates which are higher than that in India; of these the United States' rate at 91 per cent is the highest. However, the income levels at which these rates become operative in those countries are very much higher than the income level which attracts the highest marginal rate in India—in the U.S.A. this income is almost twenty times as large as the relevant income in India.

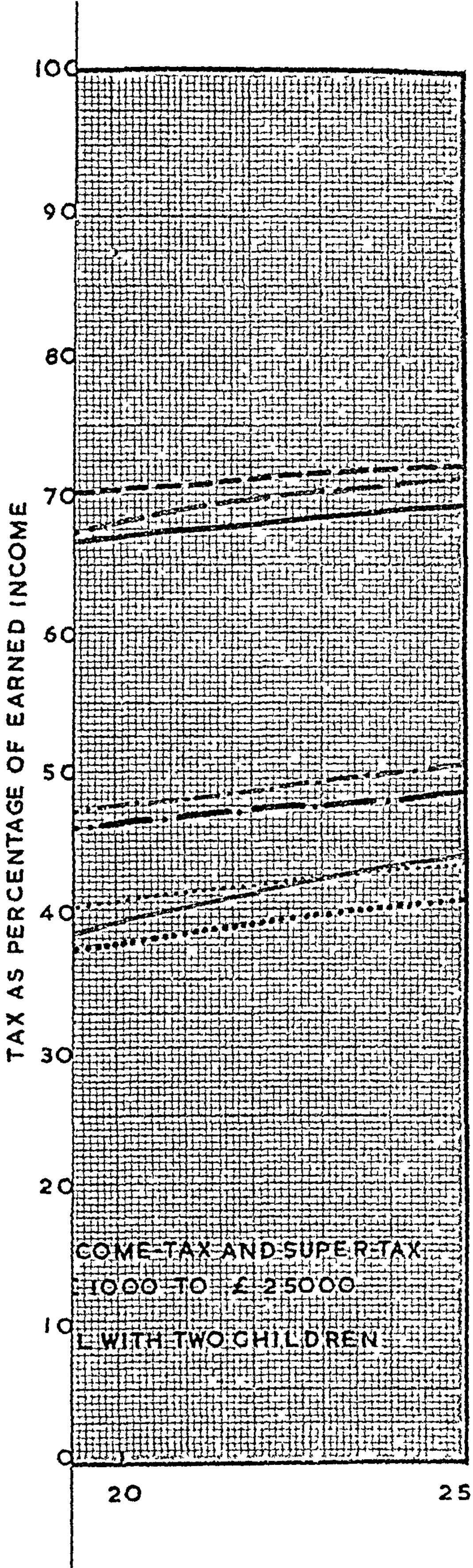
It may be pointed out that both Japan and West Germany, which have shown the highest rate of growth in the post-war period, levy lower tax rates in the middle and high income ranges and have a slower progression than India. There have been, of course, other favourable factors which enabled these countries to achieve phenomenal progress. But it is probable that, in their conditions, relatively low rates of taxation contributed to the climate for rapid growth.

It may be more appropriate to compare the tax burdens in India and other developing countries. Table 4 presents the tax rates payable at different levels of income in India, Pakistan, Ceylon, Kenya and Nigeria. (This comparison is also depicted in Graph II.) Among these countries the effective rate of taxation is highest in India for the range £1,000 to £6,000. Above this, Indian tax rates are higher than those in Ceylon, Kenya and Nigeria but lower than those in Pakistan. The highest marginal rate in Pakistan is heavier than that in India (Pakistan: 80 per cent; India. 77 per cent), and Pakistan imposes this rate at a lower level than that at which the maximum marginal rate applies in India (Pakistan· Rs. 76,000; India: Rs. 1,00,000).

The limitations of this comparison of tax rates must now be pointed out. According to some, a meaningful comparison can be made only by taking account of differences in per capita incomes in the various countries. On this basis, the effective rates on different income levels in India would work out to be lower than those at comparable income levels in advanced countries. Further, the rate structures in different countries should be viewed together with the definitions of taxable incomes to which they apply, but it is not feasible to take account of the differences in the definitions while making a comparison of this nature.

Our comparison is confined to the taxation of earned income. Although a number of countries do not differentiate between unearned income and earned income, there are some like India which discriminate in favour of earned income. From the viewpoint of both incentives and ability to invest, the tax treatment of unearned income is of great significance, since the return from the most common form of risky investment—company shares—is treated in some countries, including India, as unearned income But in the absence of adequate data, it is not possible to compare the taxation of unearned incomes in various countries. However, our comparison is framed on the basic rates of tax in various countries and should give a fairly good idea of the progression of rates in those countries.

The differentiation in favour of earned income in justifiable on



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several grounds. This kind of income is more "precarious" than unearned income. Unemployment, prolonged sickness, disability or old age of the earner interrupt or reduce his earned income whereas such personal circumstances do not affect unearned income. A second reason for this discrimination is that like the depreciation allowances on capital assets, tax relief should be allowed to workers in view of the fact that their productive capacities will be ultimately exhausted. A third reason is that a worker must sacrifice leisure to earn his living, which involves real costs of physical and mental effort. No such sacrifice has to be made by a person who is fortunate to enjoy investment income. Another argument is that the possession of capital which yields investment income increases the spending power and taxable capacity of the person, since he can spend in excess of his income.

Some of these arguments for tax discrimination against property income can be advanced in support of an alternative method of taxation—a wealth-tax. Such a tax directly hits at capital from which the owner derives the above-mentioned benefits. This tax has an advantage over the differential tax treatment of unearned income in the sense that it is neutral as between risky and non-risky investment, while the method of tax discrimination against unearned income favours non-risky investment. This comparison of the two taxes holds good on the basis that risky investment generally yields a higher income than non-risky investment.

An important point to note here is that in India both a wealth-tax and a differentiation against unearned income exist together. This should be kept in mind when the Indian income-tax rates are compared with those in other countries. The implications of this combined burden are brought out in Chapter 4.

The international comparison of tax rates indicates that the Indian income-tax is highly progressive—one of the most progressive systems in the world and that the tax burden on the upper income levels in the range considered by us is one of the highest. Table 5 gives an idea of the distribution of the tax burden among various income groups. It shows that about 53 per cent of the tax is paid by assessees who form nearly 1 5 per cent of the total number of assessees, accounting for about 14 5 per cent of the assessed income. These are persons in higher income brackets, drawing more than Rs. 50,000 per year.

These individuals received about 47 per cent of the dividend income (vide Table 6) assessed to tax, which shows that this small group of persons supplied about half of the equity capital to companies.

No categorical comments are possible about the exact degree of

income-tax progression desirable for the country. Revenue considerations are important in the formulation of the scale of progression It is also designed to serve the declared social objective of reduction of economic inequalities. But its economic effects on private savings and investment necessary for rapid economic development must be given due weight. These effects are discussed in Chapter 4.

Capital-gains Tax

Till recently capital gains were not taxed in India. In 1946 a tax on such gains was introduced but it was withdrawn in 1949. The official reasons given for dropping the tax were: (i) it was not yielding any sizeable revenues because of falling values of properties, (ii) it had an adverse psychological effect on investment, and (iii) it hampered the free movement of securities in the capital market, which was a necessary pre-requisite for industrial development. A tax on capital gains was introduced in November 1956, for without this tax, the Government believed, the fiscal system was weighted in favour of a type of income which aggravates economic inequalities. Since Government's investment programmes and other expenditures created conditions for capital appreciation, it was only fair that the exchequer got a proportion of the income realized in the form of capital gains. Further, in the absence of the tax, income could appear as tax-free capital gains and capital losses may be set off against income, so that, in the words of Mr. Kaldor, "the Revenue has the worst of both worlds".

In the view of some businessmen, however, the exchequer often makes the best of both worlds. Owing to the lack of a precise definition of capital gains in the tax law, a capital gain can be treated as ordinary income by the tax authorities if such gains are sought repeatedly. Under these circumstances, a capital loss cannot be set off against such capital receipts.

This impost falls only on capital gains realized after April 1, 1956. Such gains are measured by the excess of sale-price over either original cost or market value on January 1, 1954, the option being with the tax payer. No tax is payable if in any accounting year the total amount of capital gains is less than Rs. 5 000, or if the capital gains plus the other taxable income does not exceed Rs. 10,000. The rate at which capital gains are taxed is the income-tax rate applicable to the sum of the assessee's income and one-third of these gains No super-tax is payable on capital gains and since the maximum rate of income-tax and surcharge for individuals is 30 per cent, the rate of capital-gains tax cannot exceed this figure. The tax assessed on capital gains was only

Rs. 39 lakhs in 1958-59.

The fact that the tax rate on capital gains is lower than that on the other forms of income and profits, encourages persons in upper income brackets to invest in assets that offer chances of large capital gains. Company shares are the most important form of such investment. This point is brought out in chapter 6.

Wealth-tax

In 1957 a tax on wealth was imposed as part of the scheme to reform the structure of direct taxation. This tax was introduced on the following grounds. In the first place, income by itself is generally considered to be an inadequate measure of taxable capacity. Secondly, a tax on wealth does not discriminate against risky investment in the manner in which the income-tax does. Further, it reduces the opportunities for tax evasion and is an important instrument of social policy. Finally, it discourages the holding of wealth in unproductive forms.

This tax is levied on net wealth which consists of the value of total assets minus the value of total debts. The examption limit is Rs. 2 lakhs for individuals and Rs 4 lakhs for Hindu undivided families Wealth in the range of Rs. 2 lakhs to Rs 12 lakhs attracts tax liability at the rate of 1 per cent; on the next slab of Rs. 12 lakhs to Rs. 22 lakhs, a rate of 1.5 per cent is applied and above this level the rate is 2 per cent.

Among the important exemptions are personal effects, balances in provident funds, life insurance policies and investments in national savings certificates. Agricultural properties are excluded from the scope of Union taxation.

There are some other personal taxes in India, viz, expenditure-tax, gifts-tax and estate duty, which do not directly fall within the scope of this study.

Company Taxation

There are two distinct philosophies[1] with respect to the tax treatment of companies. According to the first, a company does not have any taxable capacity separate from its shareholders. All taxation is eventually personal taxation and, therefore, the shareholders must be given credit for the tax paid by their company. The second rests on the argument that the corporate form gives a separate entity to the

[1] There is an interesting discussion of different systems of company taxation in an article by E.B. Nortcliffe—"Company Taxation Compared" (*Progress*, Spring 1958, London).

company with a distinct capacity of its own to bear taxes. Incorporation confers definite legal privileges on a company and it must, therefore, pay for such benefits. In actual practice, a number of countries adopt an approach compounded of the two extreme philosophies and give only partial rebate to the shareholders in recognition of the tax burden suffered by the company

Originally, the U.K treated the whole of the company tax as an advance payment on behalf of its shareholders. This practice was modified in recent years and now only a part of the taxes on the company is credited to the shareholders. The profit-tax is non-refundable. The traditional British principle is still applied in countries like Ghana, Nigeria and Malaya, which were previously British colonies.

That the company has an independent capacity to bear taxes is a recognized principle in the tax systems of the United States, Australia and most European countries India, until recently, followed the "compounded" system of giving a partial credit to shareholders in respect of the taxes paid by the company. The income-tax on companies was refunded to the shareholders on distribution of profits but the super-tax was treated as non-refundable.

The system of tax credit, known as "grossing up" of dividends was, however, quite complicated Companies were charged income-tax at 31.5 per cent (income-tax 30 per cent plus surcharge 1.5 per cent), but the rate of super-tax was variable In form, super-tax was levied at the rate of 50 per cent on the whole of assessable profit, but various rebates were provided so that no company was actually subject to this ceiling rate Broadly, the net rate of super-tax on assessable profits of Indian companies was 20 per cent which made the basic tax rate on company profits 51.5 per cent (31 5 per cent income-tax plus 20 per cent super-tax) [1]

Whenever dividends were paid from company income which had been subject to income-tax, an amount of income-tax was credited to the account of the dividend recipient to offset his own income-tax liability in respect of the dividend The income-tax credit so transferred was always just sufficient so that it represented income-tax at the company rate (31 5 per cent) on the total or gross dividend.

No credit was permitted to the dividend recipient in respect of the super-tax paid by the company. Further, if the shareholder's total income was subject to personal super-tax, the super-tax was applied to gross dividend income, not to net cash dividend.

[1] The rate of super-tax was 15 per cent in the case of a company with assessable income not more than Rs 25,000.

This scheme involved several complications in actual practice. The complications arose, as explained by the Ministry of Finance,[1] out of the need to make a determination of the following factors which affected the rate at which grossing was to be done:

(i) The composition of the profits of the company from which dividends were declared, that is, how much of the dividends had come out of the profits subjected to tax and how much out of exempted profits; and

(ii) The composition of the profits in cases where the company drew upon past reserves for declaring dividends.

The determination of these factors inevitably delayed the assessment of the shareholders.

In order mainly to simplify the procedure for tax assessments, a new scheme of company taxation was introduced in 1959. It gave up the principle of deeming the income-tax paid by the company as having been paid on behalf of the shareholders, thus making the process of "grossing up" of dividends unnecessary. The new scheme has established the company as an independent taxable entity.

While introducing this change, two company taxes were abolished, viz., the excess-dividends tax and the wealth-tax. The rates of the excess-dividends tax were 10 per cent on dividends amounting to between 6 per cent and 10 per cent of the paid-up capital; 20 per cent on dividends between 10 per cent and 18 per cent of the paid-up capital; and 30 per cent on dividends in excess of 18 per cent of the paid-up capital. The wealth-tax was levied at 0 5 per cent of net wealth in excess of Rs. 5 lakhs. The marginal rates of combined company taxes (excluding wealth-tax) rose to 55.9 per cent for dividend distributions between 6 and 10 per cent of paid-up capital. They went up further to 59.6 per cent and 62.7 per cent in respect of distributions between 10 and 18 per cent and over 18 per cent respectively of the paid-up capital.

The new scheme has introduced a basic tax rate of 45 per cent on assessable profits (20 per cent income-tax and 25 per cent super-tax).[2] Companies are, however, required to deduct tax from dividends at the rate of 30 per cent for which credit is given to the shareholders in their tax assessments. This is designed merely to collect tax at source.

Dividends received by a company are subject to super-tax rates which depend on the relationship of the company with the dividend paying company. The income-tax rate is uniform at 20 per cent—the

[1] Memorandum explaining the Provisions in the Finance Bill, 1959.

[2] The super-tax rate is 20 per cent in the case of a company with assessable income not more than Rs. 25,000.

Chapter 3
Trends in Investment

It is proposed in this chapter to review some select indicators of the growth of the private sector in recent years Such a review will serve as a background to the later discussions of specific questions of tax policy and also give a preliminary answer to the question: "Have taxes actually exerted an unduly restrictive influence on private investment?"

Progress of Investment

It is common knowledge that, in spite of stresses and strains, the rate of investment in the Indian economy has been more or less steadily increasing since the inauguration of national planning in 1951. It has been estimated that total investment, which stood at about 6 per cent of national income at the beginning of the First Plan, rose to about 8 per cent at the end of that Plan period; and that by the end of the Second Plan it would have increased further to 11 per cent of national income.

During the period of the First Plan, total investment in the economy amounted to Rs. 3,360 crores, of which public investment accounted for Rs 1,560 crores and private investment for Rs 1,800 crores.[1] It is estimated that during the Second Plan period total investment would amount to Rs 6,750 crores. The share of private investment in the total would be about Rs 3,100 crores. Thus total investment in the Second Plan will be about double that in the First Plan and private investment in the Second Plan will be about 72 per cent higher than in the First Plan.[2]

Private investment in organized industries, with which we are more concerned, has been steadily rising since 1951-52. The progress of

[1] These exclude investment financed out of resources transferred from the public sector. Inclusive of such transfer, investment by the private sector is estimated to be Rs. 3,300 crores during the Second Plan period The corresponding figure for the First Plan period is not available

[2] These percentages will be somewhat lower if allowance is made for the rise in prices

private investment in this sector in the First Plan period can be seen from the following figures:

PRIVATE INVESTMENT IN ORGANIZED INDUSTRY (1951-56)

(Rs. crores)

1951-53	1953-54	1954-55	1955-56
52 8	44 2	49 7	85 6

SOURCE: *Review of the First Five Year Plan*, pp 206-7

Thus from an annual average of Rs. 26.4 crores in the first two years of the Plan, investment in this sector rose to Rs. 86 crores in 1955-56, the total for the entire period amounting to Rs. 232 3 crores. This magnitude of actual investment was more or less equal to the "targets" set for this sector in the original Plan allocations. As the *Review of the First Five Year Plan* states, "The results of the Plan in the industrial field were highly satisfactory not merely in terms of the utilization of capacity already in existence at the commencement of the Plan but also in terms of the new capacity installed in new and important lines"[1]

In the Second Five Year Plan, out of the total investment target of Rs. 6,200 crores, investment of the order of Rs. 2,400 crores was to be undertaken by the private sector. It is now estimated that actual investment in the private sector would amount to Rs 3,300 crores in the five years, 1956-61, as against the original provision of Rs. 2,400 crores. It may, therefore, be said that actual investment by the private sector during the Second Plan period has exceeded original expectations.[2] However, it is important to know, for our purposes, in which of the sectors the "over-fulfilment" of expectations was more prominent. The following table on p. 24 gives the breakdown by major sectors of estimated private investment in 1956-61 and the original provisions.

It can be seen from these figures that in all cases except in that of power, actual investment is likely to exceed the original estimates. The (percentage) difference between likely actual investment and the original estimate is seen to be highest in the case of agriculture[3] and

[1] *Review of the First Five Year Plan*, p. 4.

[2] These figures somewhat over-state the difference between the original and the later estimates, because the former was stated at 1952-53 prices whereas the latter is given at current prices.

[3] The difference is so high that one is led to doubt whether the coverage is the same in the two estimates.

INVESTMENT IN THE PRIVATE SECTOR (1956-61)

(Rs crores)

	Original Estimates	*Estimated Investment*[a]
Agriculture	275	675
Power	40	40
Transport	85	135
Village and small industries	100	225
Large and medium industries and minerals	575	700[b]
Housing and other construction	925	1,000
Inventories	400	525
Total	2,400	3,300

[a] These figures represent aggregate investment in the private sector, including that financed out of resources transferred from the public sector

[b] These figures do not include investment by way of modernization and replacement.

SOURCE: *Third Five Year Plan—A Draft Outline*, 1960, p. 51.

smallest in the case of "housing and other construction". Here we are more concerned with the behaviour of investment in the sector of organized industries. In this sector actual investment is expected to be 21.7 per cent higher than the original estimate. It may be recalled that in the First Plan period private investment in the sector of organized industries amounted to Rs 232.3 crores, giving an annual average of Rs. 46.46 crores. For the Second Plan period, the annual average of private investment in this sector works out at Rs. 140 crores.[1] It will thus be seen that private investment in this sector in the Second Plan period ran at a much higher level than in the First Plan period.

Information is also now available regarding the rate of fixed capital formation in the corporate sector of industry since 1950-51. The National Council has made detailed estimates of savings and investment by public and private limited companies, both large and small.[2] Table 7

[1] The figure of Rs 700 crores given as the magnitude of Second Plan investment in "large and medium industries and minerals" in the draft *Third Five Year Plan* (p. 51) seems broadly comparable with the Rs. 232 3 crores given as the magnitude of investment in private "organized industrial sector" in the *Review of the First Five Year Plan* (p. 208).

[2] The terms 'public companies' and 'private companies' are used throughout this Report to refer to the two types of limited companies in the private sector.

reveals the trends in investment in non-financial companies in the private sector, as estimated by the savings study of the National Council. It can be seen that gross fixed asset formation by non-financial corporations has increased from Rs. 119.8 crores in 1951-52 to Rs. 236.4 crores in 1957-58. Asset formation fell to Rs. 77.45 crores in 1953-54, but thereafter increased more or less steadily and in 1957-58 was nearly double that in 1951-52. If we take 1950-51 as the starting point, the difference in the level of asset formation would be shown to be still higher. The rate of increase in gross fixed assets in this sector was 7 per cent in 1950-51 and 12.7 per cent in 1951-52; it stood at 14 3 per cent in 1957-58. It cannot be said that the rate of growth of gross fixed assets has been consistently increasing over this period, but there is a definite upward trend. Also, in every year since 1951-52, the rate has been above 9 per cent except in 1953-54.

The major part of the fixed asset formation in this sector is seen to have taken place in the large public corporations. Here the rate of increase in gross fixed assets is generally higher than in the corporate sector as a whole; and the upward trend is more clearly evident[1] Private corporations generally account for 15 to 30 per cent of total fixed asset formation in this sector. In their case, it is not possible to discern any upward trend in the rate of increase of fixed assets. But except for an abnormal year (1954-55), in every other year the absolute level of gross fixed asset formation has been above that in 1950-51. This is not to say that the progress of the private limited companies in this respect is quite satisfactory. One would have normally expected an accelerating rate of increase in their case.

We may conclude that there is a general upward trend in the rate of increase in the gross fixed assets of non-financial corporations and that this trend is more pronounced in the case of large public corporations. In the latter half of the period under review, (annual) asset formation has been running at a much higher level than in the former

[1] The rates of growth of gross fixed assets of large public companies derived from estimates of capital formation made by the National Council differ from the rates of growth worked out by the Reserve Bank of India for their sample of large public companies. The Reserve Bank figures (see Table 15) indicate that there was a steady rise in the rate of growth of gross fixed assets of the sample companies. The estimates made by the National Council for large public companies as a whole do not indicate such a steady rise though there is evidently a definite upward trend. The differences in the two sets of figures arise because (*a*) the National Council's figures relate to financial years, while the Bank's figures relate to July-June accounting years, and (*b*) the proportion of the paid-up capital of the sample companies to the total paid-up capital of all large public limited companies has not remained constant over the period Since the blow up is based on paid-up capital, a difference arises in the two sets of figures.

half. But in the case of private limited companies progress in this respect cannot be considered wholly satisfactory.

NUMBER OF REGISTERED COMPANIES

Another indicator of the rate of growth of private enterprise, especially of large scale private enterprise, is the number of registered companies operating in the country in successive years and their total paid-up capital. The net change in the number of companies is the difference between new flotations in a year and the number of companies that are struck off the register because they go out of business. While the rate of increase in the number of companies and their paid-up capital indicates the actual growth of large scale enterprises, the trend in the number of new registrations is itself a pointer to the willingness or otherwise of entrepreneurs to start new enterprises.

Table 8 gives the total number and paid-up capital of non-Government companies at work in the years 1950-60. It can be seen that there was a steady increase both in the number of companies and paid-up capital up to 1957 Since that year there has been a fall in the number of companies, but the amount of paid-up capital has continued to rise right up to 1960. According to the Company Law Administration, the fall in the number of registered companies after 1957 is due to the strict policy followed by the Registrars of Companies, following the passage of the Companies Act of 1956, in striking off their rolls all defunct companies The Third Annual Report of the Department of Company Law Administration says in this connection :

> "During the last three years (1956-59) as many as 3,612 companies which were virtually defunct had been struck off the registers in pursuance of a rigorous policy adopted by the Administration with regard to the removal of moribund companies from the registers. The number of companies which had gone into liquidation during these three years was 1,431 The vigorous policy of weeding out virtually defunct companies which will continue to be pursued for some years to come, may be expected to result in a fall in the total number of companies at work, but will not affect the trend of capital formation adversely."[1]

At the same time, the total paid-up capital of the corporate sector has actually been increasing because many fairly large-sized companies have been brought into existence in recent years

Table 9 gives the number and authorized capital of private sector companies newly registered in the years 1951-60. It can be seen that

[1] Department of Company Law Administration, *Third Annual Report*, 1960, p 19

there has been no consistent trend in the number of annual registrations of corporations as a whole. The number fell from 1,866 in 1951-52 to 1,193 in 1953-54; it rose in the next two years but again fell to 835 in 1956-57. In 1959-60, it was considerably higher at 1,429. Though there have thus been fluctuations in the number of newly registered companies, it would seem that there is a tendency to form larger companies now than ten years ago. The total authorized capital of 1,079 companies registered in 1958-59 amounted to Rs. 186 crores whereas that of the 1,866 companies registered in 1951-52 was only Rs. 152 crores. This can be seen more clearly in the case of public companies. The number of newly registered public companies has been more or less steadily falling since 1951-52, but their authorized capital has not shown a corresponding fall. In fact the average size of new public limited companies (in terms of authorized capital) has been rising though not quite steadily. It was only Rs. 11.24 lakhs in 1953-54 and Rs. 36.50 lakhs in 1955-56; but it rose to Rs. 101.15 lakhs in 1958-59 and was Rs. 76 91 lakhs in 1959-60.

To sum up, the size of the corporate sector in terms of paid-up capital has continued to increase in spite of the fall in the number of companies It may also be said that the average size of the companies has gradually increased in these years. This must obviously be the result of (a) the establishment of fairly large-sized new companies and (b) the expansion of the older companies.

While it is true that a number of new companies are being formed and that the size of the corporate sector is expanding, it cannot be said that there is any buoyant expansion or that there is a rise in the rate of growth. The rate of growth of the corporate sector in terms of paid-up capital has fallen from 10 4 per cent between 1951 and 1952 to 3.6 per cent between 1959 and 1960 The whole of this fall cannot be ascribed to the removal of defunct companies from the registers in 1960, because this must have happened in 1959 also Besides, there has been no consistent increase in the number and authorized capital of companies newly registered in successive years.

Index of Variable Dividend Industrial Securities

The index of variable dividend industrial securities is a fairly good indicator of the state of business and the outlook of the investing public. The professional speculators in stocks can, of course, create artificial booms in security prices for short periods of time. However, over a period of years, the dominant influence on security prices will be exerted by the basic forces underlying demand and supply, such as the

general level of profitability, prospects for the future, the amount of new issues, etc It would therefore be useful, for our purposes, to briefly review the trend in security prices as revealed by the indices of variable dividend industrial securities.

Indices of security prices are being regularly compiled by the Reserve Bank of India The series for the years 1952-58 have 1949-50 as the base, but since 1957-58, the base has been shifted to 1952-53. Though it is not possible to convert all of them to the same base, they can be used as they are, for ascertaining the general trend in prices, especially as the same base has been used for most of the years in which we are interested Table 10 gives the indices of the security prices of all major industries for the years 1951-60 The figure for any year is the average of weekly indices in that year.

The index for all industries (1949-50=100) stood at 94.0 in 1952-53. It had reached this level after the boom induced by the Korean War had spent itself From this year onwards, the index steadily rose and reached 121 2 in 1956-57 It suddenly dropped by nearly 21 points in the next year; even so, it was 6 3 points higher than the index for 1952-53 The new index (1952-53=100) was actually 125.4 points in 1957-58 In 1958-59 the index climbed up to 137.3 and then to 155.3 in 1959-60.

It is noteworthy that the index for all industries has steadily risen since 1952-53 except for the fall recorded in 1957-58. This fall reflects the downward tendency which developed in the stock market around September 1956 and which continued up to the end of 1957-58. The downturn began as a reaction to the raising of the excise duty on cloth at the end of August 1956 and was accelerated by the reimposition of the capital-gains tax and the increase in the excess-dividends tax announced in November of the same year. Further decline during 1957-58 was due to the combined operation of a number of causes. But it was basically a reflection of internal and external strains on the economy which became intensified during that year. The fall in agricultural production led to a contraction in domestic demand. On the other hand, the severe import cuts imposed during the course of the year on account of the grave foreign exchange position resulted in a shortage of certain essential raw materials and capital goods. Consequently, the growth in industrial output was slowed down and private investment declined somewhat. In some industries, notably cotton textiles, there was a marked accumulation of stocks which affected production. All these developments had their repercussions on the stock market. Another factor that contributed to a measure of diffidence in the stock market was the introduction of new taxation proposals in May 1957. The tax

rates on companies were raised and two new taxes, the wealth-tax and the expenditure-tax, were introduced. The cumulative effect of all these developments was seen in the decline of the index (1949-50=100) from 109.2 at the end of March 1957 to 97.9 at the end of March 1958.

What is remarkable, however, is the speedy recovery in security prices in the very next year. The index (revised base 1952-53=100) which stood at 126 6 at the end of March 1958 rose to 146 8 at the end of March 1959. The average for the year 1958-59 was 11.9 points higher (at 137.3) than that for the previous year. There was a steeper rise in 1959-60. And after the presentation of the Central budget for 1960-61, there was such a rapid rise in security prices that the Reserve Bank thought it necessary to impose restrictions on speculative activity. Though there was a an intial fall, as a first reaction to the curbs, prices on most counters soon recovered and reached or surpassed their pre-curb levels. In September 1960, the index (1952-53=100) stood at 173.6. While the overall index shows general progress, it must be noted that some segments of the economy have been languishing. For instance, the indices for jute and investment trusts show a declining trend from 1951 to 1958, although they have started picking up since 1957-58.

But it is obvious that the stock market has, on the whole, been enjoying boom conditions in the last few years. It seems likely that in spite of monetary curbs and the like, bullish tendencies will generally prevail in the market unless some extraneous event supervenes to upset the basic conditions of the economy. Many reasons have been advanced to explain the boom in the stock market. Inflationary conditions in the economy and the easy availability of money are considered to be important causes for the near speculative rise in security prices in the last few months Speculative activity is cited by some as an important contributory factor. While speculation, properly so called, has undoubtedly had some part to play in the rather steep rise in some security prices, it cannot be considered the most important or even the basic cause underlying the boom. Even the shares on the cash list are being quoted at a high premium. In a sense the boom in the stock market is a reflection of the general inflationary conditions in the economy. On the one hand, in a planned economy geared to rapid development with a mild dose of inflation as a permanent feature, the prospects for earning profits are fairly good On the other hand, there is emerging a new class of investors with a surplus of funds for investment. The very inflation that augments the supply of cash in their hands leads them to seek forms of investment that will be a good hedge against inflation. It would seem that a large number of investors are primarily interested

in long-term capital appreciation. The shares of companies floated by well-known business houses and those of companies which have secured a good foreign collaborator are favourites among the public and are quoted at high prices The capital issues of such companies are usually over-subscribed, while there have been cases of under-subscription of the issues of companies not so well-known. This is an indication that the investors are quite discerning and do assess the prospects for high profits and the resultant capital appreciation. Basically, therefore, the boom in the stock market must be explained by the prevalence of a propitious climate for investment and for the earning of profits, and the enlargement of the investing class and of funds seeking investment The role that the Government has played in creating a climate favourable for investment by various forms of assistance to industry and by the building up of overheads should not be underestimated

Capital Issues and Public Response

The new issues market has been quite active in recent years. Though there have been fluctuations from year to year in the amount of 'consents' granted and the amount of capital raised against these consents, there is noticeable a general upward trend in activity in the new issues market. The increase in the amount of consents granted in recent years is a fairly good indication of the increased desire on the part of the private sector to raise capital in the market. In the Second Plan period, the yearly amounts of consents are generally higher than in the First Plan period (Table 11) The amount of consents in 1956 was higher, at Rs 108 96 crores, than in any other year of the First Plan period; and the figure for 1959 (Rs. 112.26 crores) is the highest in the decade since 1950 Also, the annual average for 1956-59 at Rs. 91.7 crores is substantially higher than that for the calendar years 1950-55[1] at Rs. 59 3 crores

Complete data are not available for the actual amount of capital raised by the corporate sector in different years. However, figures of capital subscribed and paid-up against the consents granted are available in respect of companies which have reported to the Controller of Capital Issues These data are consolidated by the Controller on the basis of reports received from companies and Registrars of companies. They do not include the capital raised by companies for which no reports were received

In the seven-year period 1950-56, the total amount of capital raised by reporting companies by way of share capital and debentures

[1] This is broadly the same as the First Plan period

amounted to Rs. 219 crores[1], giving an annual average of Rs. 31.3 crores The amounts raised in the (calendar) years 1957-59 are shown in Table 12.

It is seen that the amount raised in the last three years was considerably larger than the average for the period 1950-56. In 1957 the reporting companies raised a total of Rs 68.1 crores by way of share capital and debenture. In the next year, activity was somewhat lower and only Rs 55.2 crores were raised. In 1959, the market "blazed into activity" and according to preliminary official data, the capital raised by non-government companies amounted to Rs 65.2 crores, which was as much as 18 per cent higher than the amount raised in 1958. "The preliminary figure for 1959 is likely to be revised upwards and it seems likely that the amount of capital raised in 1959 would exceed that in 1957 also (of Rs. 68 crores)."[2]

Public response to issues of share capital has been generally good in recent years; in 1959 and 1960 it has been remarkably good. A number of issues were heavily over-subscribed even in 1958 and over-subscription became quite a common feature in 1959 and 1960. Not that there were no cases of under-subscription. Contrary to popular impression, several issues were under-subscribed during the years 1956-58. This question is discussed in greater detail in Chapter 6, on the basis of the replies to the National Council's questionnaire issued to companies that had received consents for capital issues. Suffice it here to point out that over-subscription is usually found in respect of companies floated by credit-worthy or well-known business leaders who have secured the collaboration of foreign companies of good standing. In such cases, even if it may take two or three years to begin production, the shares are in heavy demand and are quoted at a high premium. It is legitimate to infer from this (a) that a number of active investors are interested in long-term capital appreciation and (b) that the ordinary investors are willing to supply their savings readily only when they are convinced about the credit-worthiness and standing of the entrepreneurs concerned. Therefore, it would be wrong to overlook the key role of the promoter behind large-scale business ventures. It would be hard to maintain that taxation has dulled the willingness to invest in ordinary shares as such. Indeed the public seems to be more willing than ever to undertake such investment. What needs closer attention is the question of how high taxation impinges on the ability of entrepreneurs to promote new ventures.

[1] Reserve Bank of India, *Report on Currency and Finance*, 1956-57, p 45.
[2] *Ibid*, 1959-60, p. 47.

CONCLUSION

The main findings and conclusions of the study are brought together in the final chapter. It may, however, be useful to say a few words here about the inferences that may be drawn from this review of the growth of the private sector and of the indicators of the climate for investment.

The broad conclusion that emerges from our analysis of the trends in the private sector of the economy is that, on the whole, the tax-expenditure programmes of the government, taken one with another, have afforded the scope for, and in fact probably helped achieve, a rate of growth of the private industrial sector that can be generally considered satisfactory in terms of the targets set under the First and the Second Plans. Further, in the light of the evidence adduced above, it can hardly be maintained that incentives have been seriously impaired[1] nor that the sources of supply of funds are beginning to dry up. As explained earlier, the provision of an almost completely sheltered market in the case of most important goods, the creation and maintenance of a moderately inflationary situation through budgetary policy, the building up of essential overheads, the earnest attempts made to augment the supply of capital to private enterprise—all these have combined to create a climate quite favourable to investment, and, for the time being at any rate, governmental policies in many other directions and fields seem to counterbalance the adverse effects of high taxation.

It has been suggested that tax evasion and avoidance have to some extent forestalled the operation of high rates of taxation, which alone can produce serious disincentive effects. In the absence of more accurate information than now available regarding the magnitude of evasion, it is difficult to assess the significance of this factor In the course of our interviews, it was often mentioned to us that the existing high rates of taxation in the upper slabs of income put a heavy premium on evasion and avoidance. There may be some relationship between high rates and *evasion*, but it is doubtful whether any change in rates will appreciably affect the extent of *avoidance*. For avoidance is strictly within the four corners of the law; it is no crime to practise it. Indeed some loopholes, that make avoidance possible, are knowingly left in the law in order to mitigate the effects of high taxation e g, the concessional treatment of capital gains which induces tax payers to "convert" regular income into capital gains.

In the case of companies, especially public limited companies, it is not easy to practise evasion. Individuals, however, find greater scope

[1] The reference is to incentives in the private sector as a whole Incentives of some classes of people might have been adversely affected

25 per cent of the share capital of the company that pays the dividends, the dividend income of the investing company is exempt from tax liability. Some other countries which tax inter-company dividends, grant total exemption from tax on dividends received by the parent company from its subsidiaries.

India has attempted to tackle the tax problem of intercorporate investments mainly through Section 56A. As mentioned earlier, this section exempts from super-tax those dividends which are received from companies engaged in any of the specified industries. Under the old scheme of company taxation, the dividend received carried an income-tax credit which met the income-tax liability of the receiving company. Section 56A obviated the need to pay the super-tax. The dividends in such cases were thus totally exempted from taxes. An additional tax burden on investment in 56A companies has, however, emerged as a result of the new scheme of company taxation. Although the exemption from super-tax will still be available, the investing companies will be liable to pay income-tax at 20 per cent. This is a result of the elimination of tax-credit for income-tax paid by companies. Even the dividends from the favoured industries under 56A will thus bear a total tax burden of 56 per cent as compared with the basic rate of 45 per cent on company profits.

Section 56A does not cover a number of new fields of private enterprise, particularly light engineering industries. Discrimination in favour of certain industries under this Section is justified because under a system of planning, there are selected industries which have to be given the highest priority and they deserve special fiscal encouragement. The super-tax exemption under this Section cannot, therefore, provide adequate relief to the corporate sector as a whole. In order to achieve an accelerated growth all along the industrial front, the existing heavy burden on intercorporate investments in general must be reduced.

The main justification for the tax on intercorporate dividends is its revenue yield which has been quite substantial at Rs. 19 crores in 1958-59. It may not, therefore, be feasible at present to abolish this tax. A suitable reduction in the tax rate, however, appears necessary to remove a deterrent to the expansion of a strategic source of corporate financing.

Impact on Intercorporate Dividend Tax on Foreign Investment

Most of the new companies in recent years have been promoted with the technical and financial collaboration of foreign companies. The domestic investment could not have materialized without the counter-

part investment from abroad In fact, many of the new engineering industries still to be pioneered or expanded by private enterprise, will need the twin services of foreign investment, namely technical know-how and foreign exchange.

Foreign investment must inevitably come in the form of a two-tier corporate structure consisting of an Indian operating company and an investing company in a foreign country. Therefore, it cannot escape the burden of the inter-corporate dividend tax.

The foreign investor—now almost always a company rather than an individual—finds the basic company tax rate of 45 per cent on the Indian company with which it collaborates to be quite reasonable. It compares favourably with the rates in industrially advanced countries. But the dividends flowing to minority shareholdings abroad are taxed at 63 per cent if they come from Indian companies formed before 1 April 1959 and at 53 per cent if they arise from companies set up on or after this date This additional tax burden, the full weight of which is felt after the five-year "tax holiday"[1] for new enterprises, acts as a deterrent. It makes the eventual yield to the individual shareholders of the foreign investing company much lower than what they can secure from investments in other alternatives open to them, namely, their home country or other developing countries that offer them more attractive return.

The reluctance of the foreign investor to bear this heavy tax burden leaves two courses open to the Indian entrepreneur. He may either drop his investment plan altogether or attract the foreign collaborator by promising higher gross return for his financial investment and technical assistance Neither of these alternatives is desirable for the growth of private industry.

There is another point to be noted here. India's industrial policy prefers minority holdings from abroad but its tax policy encourages majority rather than minority shareholdings by foreign investors in Indian enterprises. The tax rate on dividends flowing from an Indian subsidiary to a foreign parent company is 33 per cent as compared with 63 per cent on dividends to foreign minority shareholdings.[2] This contradiction in Government policy should be removed.

Further, in considering the reduction of the inter-corporate dividend tax on domestic investment, the need for granting such an incentive to foreign investment should also be equally recognized.

[1] Discussed in Chapter 2.

[2] 53 per cent on dividends from Indian companies formed and registered on or after 1st April, 1959.

Individual Investor and the New Issues Market

As indicated earlier, individuals play a very important role in subscriptions to new issues thrown open to the public (Table 27). Also, there is evidence to show that individuals account for a substantial part of the ownership of the share-capital of all companies. Table 30 prepared on the basis of income-tax revenue statistics shows the relative amounts of dividend income flowing to different classes of investors.

It will be seen that individuals account for more than 50 per cent of the dividend income assessed to tax. In view of the important role played by individuals in the supply of equity capital to corporations, in any study of the effects of taxes on the flow of funds to business, the attitudes and reactions of individual investors should be examined For this purpose, the National Council issued a questionnaire[1] (Appendix 2) to samples of individual investors selected on a random basis from the clients of the most important share-brokers in Delhi, Bombay and Calcutta. The questionnaire was mailed to 730 individuals of whom about 20 per cent (148) sent in their replies The majority of those who responded belong to income groups below Rs. 20,000 per year and are, therefore, not liable to pay super-tax. Only 30 individuals fall in the income brackets subject to super-tax, 11 of whom are at income levels above Rs. 50,000 per year. A few of our respondents have incomes above Rs. 1 lakh.

It is the individuals in the upper classes whose reactions are, in one respect, most important for our study. As indicated earlier (Chapter 2) they supply most of the equity capital that flows from individuals to companies Also, it is these individuals who are subject to high marginal rates of taxation. Therefore, in our analysis of replies to the questionnaire, we have given special attention to those received from persons with incomes above Rs. 20,000.

Our respondents belong to a variety of occupational groups. They are independent businessmen, managing directors, professionals like doctors, service personnel and retired individuals. They also belong to both sexes. This varied occupational pattern of our respondents indicates that many classes of the population are now a days interested in shares as a form of investment

The motive for investing in shares may be earning a high rate of return or realizing capital gains or a mixture of both in varying degrees. Among our respondents, more than 70 per cent of those with

[1] Our questionnaire was modelled on the one used by the Harvard School of Business Administration in their study, *Effects of Taxation Investment by Individuals* (1953)

incomes above Rs. 20,000 (and therefore subject to super-tax) indicated that they invest in shares with the objective of capital appreciation rather than earning secure or high incomes. On the other hand, a majority of those below Rs. 20,000 indicated secure income as their chief investment objective. In an era of rising prices capital appreciation is needed even to preserve the real value of one's savings. It is therefore natural that those who gave capital gain as their main objective should also indicate that they regarded investments in shares as a good hedge against inflation, as many of our respondents actually did. In fact, even some of those who gave secure income as their chief objective indicated "hedge against inflation", as an equally important consideration.

It is noteworthy that a large majority of those who are liable to super-tax indicated capital appreciation as their chief investment objective. As their normal incomes are subject to high marginal rates of super-tax, they are led to seek forms of investment that would yield them a type of receipts (capital gains) which receive favourable tax treatment. In other words, it seems that investors in the higher income groups are not deterred from investing in shares because capital gains are subject to concessional tax treatment.

In answer to the question on investment preferences, a large number of respondents gave equity shares as their first preference. Of the 148 respondents, no less than 76 persons expressed a preference for equity shares, while nine opted for preference shares and 26 for other forms of investment such as own business and real estate. The remaining 37 investors did not give clear replies that could be classified. Among the super-tax paying group, 20 out of the 30 respondents gave equity shares as the first preference. It seems therefore, that in spite of increased taxation in recent years, and the changes in the system of company taxation leading to the abolition of the tax-credit given to shareholders, equity shares remain a favourite form of investment among investors.

Indeed, most of our respondents indicated that they had increased their holdings of ordinary shares since 1956. Among the super-tax paying groups, only two out of the 30 respondents had decreased their holdings. And 22 of them said that they had bought new issues of companies since 1956.

In answer to the question regarding factors that affect decisions to invest (Question 3), only 14 per cent (21) of the investors said that changes in the level of taxes influenced their decisions to invest. A good many of the respondents indicated change in income or change

in rate of return as the most important factor.

It would seem that taxes affected the investment patterns of different individuals differently. Some claimed that they had decided to buy more of equities because of high taxation, while others maintained that they had moved away from equities for the same reason. But only 15 individuals claimed that taxes had adversely affected their decisions to undertake investment. It is remarkable that even those with very high incomes did not generally say that taxes had dulled their incentives to invest in company shares. Only one individual with income above Rs. 1 lakh stated that he had no incentive to undertake investment because "the loss is borne by oneself whereas bulk of the profit goes in increased taxes."

It appears that the deterrent effect of personal taxes on the willingness to invest has in recent years been offset by other factors which together account for a bright outlook regarding business prospects. In reply to the question inviting opinion as to the most likely trend of business conditions and share values during the next few years, more than 60 per cent showed robust expectations of continued boom conditions; about 34 per cent were hopeful of business prosperity, although some of them were rather vague in their prophecies; only six per cent expressed pessimistic feelings regarding the future of business

While it may be said on the basis of replies received by us that the incentive to invest in equity shares has not been materially affected (largely because of the favourable treatment of capital gains), there is some evidence that the ability to invest has been curtailed in the top income brackets. Even those with large incomes indicated that they had increased their holdings of shares only by a few thousand rupees, though investment in equities was their first preference One individual, with probably the highest income among all the respondents and with a clear preference for investment in equity shares, revealed that he had not been able to increase his total holdings (in value terms) of marketable shares since 1956. Though he had bought new issues since that year, he had to sell his old shares for that purpose and for "paying large tax claims".

The overall impression that we gathered from the perusal of the replies is that, on the whole, investors entertain robust expectations about business conditions and that their incentive to invest in equity shares has not been perceptibly affected. However, it seems that the ability to invest out of current savings has been curtailed at very high income levels.

Chapter 7
Conclusion

THIS CHAPTER BRINGS together the main findings and conclusions of our study. The chief object of our enquiry has been to examine, against the background of recent trends, the effects of the tax system on the prospects for the growth of private enterprise.

For this purpose, a review of some select indicators of the progress of private enterprise and the climate for investment was presented. The broad conclusion that emerges from our study of business trends is that in recent years the climate for investment in the country has been favourable. Many factors, including government expenditure programmes, have offset the adverse effects of taxation. Several indicators of business growth have shown an upward trend and expectations on the part of entrepreneurs as well as individual investors regarding the profitability of investment seem to be fairly good. However, in a number of fields there are no signs of buoyant expansion. Thus capital formation even in large public companies has not been rising steadily or at an increasing rate. Again, the growth of the corporate sector in terms of paid-up capital has not been proceeding sufficiently fast.

Our study of the attitudes and reactions of individual investors and of the trends in the stock market indicates that the willingness of the public to invest in equity shares has not been perceptibly affected. The possibility of, and the desire for, long-term capital gains seem to be important factors in augmenting the supply of investible funds flowing to the market for equities. In the higher income ranges, the incentive to invest is sustained to some extent by the concessional treatment of capital gains. However, we have seen evidence that the ability to invest out of current savings has been curtailed at very high income levels. As pointed out earlier, even those with large incomes indicated that they had increased their holdings of shares by only a few thousand rupees since 1956, though investment in equities was their first preference.

While it cannot be maintained generally that the sources of supply of funds have begun to dry up, it can be shown that the combined impact of income and wealth-taxes tends to curtail severely the capacity

to save of active entrepreneur-investors in the higher ranges of income and wealth. The rate of savings in the economy does not seem to have kept pace with the rate of investment in recent years Even the savings of public and private limited companies do not show an upward trend in the years for which we have firm estimates.[1] What is more disquieting is the trend in savings in the government sector. If the capacity to save of individuals is curtailed, but the savings by government correspondingly increase, then at least it could be maintained that public savings have taken the place of private savings. The real position, however, is quite the contrary. Net savings by the public sector have really declined since 1951-52. The ratio of net government savings to net government investment has steadily fallen from 94 per cent in 1951-52 to 18 per cent in 1957-58. In other words, an increasing proportion of public investment is financed by drafts on private savings. In this situation, there can be no doubt that the promotion of a high rate of private savings must be a basic goal of fiscal and other economic policies

The direct tax structure of India cannot be said to be deliberately geared to the promotion of savings, especially personal savings. Some tax inducements to promote savings may be considered. If the rate of savings is stepped up, we might at least ensure that public investment is financed by genuine savings and not credit creation.

The private industrial sector can be said to have recorded satisfactory progress in the past few years in terms of the role assigned to it under the plans But we need to consider the needs of the future. The full effects of the changes in the tax system since 1956 will only be felt after a lapse of time. On the other hand, in order to maintain a rising rate of growth of private investment, it is necessary to ensure that increasing amounts of funds will flow into the field of industrial investment In as much as the entrepreneur-investors are the prime motive force behind the promotion of new businesses, theirs is a key position in the process of growth in the context of a mixed economy wherein a large role is assigned to the private sector. The role of government in securing accelerated economic growth should not, of course, be underestimated But while the needs of the public sector have always to be kept in view and in several cases might even have priority, the tax system cannot be made to operate in such a way as to make impossible the accumulation in the hands of individuals of funds large enough to enable them to start and run enterprises on efficient lines.

We have indicated that the tax system is designed in such a way

[1] 1950-51 to 1957-58.

that, after a point, the disposable income of an individual tends to fall with every addition to his wealth through savings. At this level, the incentive to save is virtually eliminated unless the individual were to adopt various tax-avoiding devices. At still higher levels of wealth, the sum of income and wealth-tax liabilities will first equal and then exceed the entire income of the individual. In other words, consciously or otherwise, the tax system is so fashioned as to impose a virtual ceiling on individual wealth holdings. The imposition of such a ceiling does substantially help achieve the objective of reducing economic inequalities and keeping them within defined limits. In that process, however, it seriously reduces the ability and incentive to save of individuals at or near the ceiling level.

How far the imposition of the ceiling on wealth through the method of income and wealth taxation affects the rate of growth of savings and investment in the private sector as a whole depends very much on the level of wealth at which it comes into operation. If, as we have indicated, the ceiling level is reached between Rs 40 lakhs and Rs. 50 lakhs, there is a case for pushing up the zero-point level on purely economic grounds. Further, a tax ceiling of 100 per cent of the taxpayer's total income appears justifiable. It would leave scope for the operation of the wealth-tax in all cases and would be quite adequate to serve the social objective. The loss in revenue resulting from such a ceiling may not be substantial. Since the income-tax and the annual wealth-tax are recurring payments, it is only reasonable that, in any case, they do not together exceed the total income of a person. In view of the fact that the disincentives to save come into operation much below the ceiling level and in view of the need to promote private savings, we recommend some reduction in the pace of progression of super-tax at very high income levels. Whether there should be a ceiling on individual wealth is partly a matter of value judgment. What we are here particularly concerned to point out is that, on economic grounds, there is a case for raising the level of the ceiling.

The expansion of private enterprise necessary for rapid industrialization must largely assume the corporate form in many fields. Entrepreneurs employ this form to mobilize resources from many individuals and institutions, including the earnings of the company itself.

The sources from which funds can be collected by corporations to finance their investment programmes are: (i) banks and other financial institutions, (ii) retained profits, and (iii) the new issue market. Taxation impinges mainly on equity capital that flows from retained profits and new issues. These are the sources of special importance for cor-

porate growth. The supply of loan capital from banks and financial institutions is not directly affected by changes in tax rates, particularly those in corporate taxes. The service charges on loans are deducted as expenditures from gross receipts and, therefore, a moderate rise in taxes does not increase the costs or difficulties of financing through borrowings. On the other hand, corporate taxes have a direct impact on the return to risk capital We have, therefore, examined whether such taxes exercise any undue repressive effects on the supply of equity capital through the retention of profits and new issues of capital.

The basic income and super-taxes on company profits at 45 per cent under the new scheme of company taxation may be deemed to be quite reasonable Various fiscal devices introduced during the last decade have increased the scope for companies to build up their internal resources. These measures include the development rebate, five-year exemption from taxes of a proportion of the profits and dividends of new undertakings and exemption from super-tax of inter-company dividends from specified industries. But there are two features of the Indian tax system that discourage the retention of company profits. One is Section 23A, which requires private companies and closely-held public companies to distribute specified percentages of their profits after tax The main purpose of this Section, which is to prevent avoidance of personal super-tax by individuals in high income brackets, is no doubt justified. The statutory percentages for profit distribution are reasonable. All that is required is the introduction of some flexibility in the administration of this Section to take account of the special problems of small and growing enterprises, which need for the growth of honest and legitimate business a higher retention of profits than is permitted by law. The other deterrent is the penal super-tax on bonus shares which, in a perverse manner, discourages reinvestment

The new issue market is the most important source of equity finance for new large-scale enterprises Inter-corporate investments have a special role to play in the expansion of this source. Any anti-social use of such investments is checked through several restrictions imposed by the Companies Act But the tax on inter-corporate dividends makes the aggregate tax burden on the return to inter-corporate investments quite heavy. In the case of foreign investment, which is necessary for collaboration with domestic investment, this tax has a deterrent effect, because the eventual yield that it leaves to the individual shareholders of foreign companies does not compare favourably with what they can earn in some other developing countries and in their countries of domicile.

These features of the tax system—Section 23A, the tax on bonus shares and the tax on inter-corporate dividends—need modifications in order to encourage the long-term growth of strategic sources of corporate finance.

We believe that these reforms in company taxation and the adjustment of personal super-tax rates at high income levels, that we have suggested, will not involve a substantial loss in revenues. In any case, they can be introduced gradually. Moreover, if, as we believe, these changes should lead to a higher rate of industrial growth, there would be a much-needed widening of the tax-base.

TABLES

TABLE 1

TAX PAYABLE AS PERCENTAGE OF INCOME

(Selected Income Levels)

Income (Rs.)	*Tax as Percentage of Earned Income*	*Tax as Percentage of Unearned Income*
3,000	..	..
3,600	2 2	2.2
5,000	2.4	2.4
10,000	5.2	5 9
12,000	6.3	7 1
15,000	7.8	9 0
20,000	10 6	12 1
30,000	19 3	22 1
40,000	26 3	30 1
55,000	35.4	40.4
1,00,000	51 5	58.8
5,00,000	71.9	79 0
10,00,000	74.4	82.7

SOURCE: Explanatory Memorandum on the Budget of the Central Government for 1958-59.

TABLE 2

CHANGES IN EFFECTIVE TAX RATES AS A RESULT OF THE FINANCE (No. 2) ACT, 1957

(Tax payable by a married person as percentage of income at selected income levels)

Income (Rs.)	*If wholly Earned* (Percentage)			*If wholly Unearned* (Percentage)		
	1956-57	1957-58 *and later*	*Decrease or Increase*	1956-57	1957-58 *and later*	*Decrease or Increase*
3,200	..	0.2	+0.2	..	0.2	+0.2
4,200	..	0.9	+0.9	..	0.9	+0.9
5,000	1.9	1.2	-0.7	2.8	1 2	-1 6
6,000	2 2	2.0	-0.2	4 1	2.0	-2.1
8,400	4.1	3.6	-0 5	6.8	4.2	-2.6
10,000	5.1	4 6	-0.5	8.0	5.2	-2.8
12,000	6 2	5.7	-0.5	10.2	6.5	-3.7
15,000	8 2	7.4	-0.8	12.5	8 5	-4.0
18,000	9.7	9.3	-0.4	14 8	10 7	-4.1
24,000	14 4	14 1	-0.3	18 7	16 1	-2.6
30,000	21 1	19.3	-1 8	23.7	22.1	-1.6
40,000	28 6	26 3	-2 3	29.3	30.1	+0 8
60,000	40.3	37 7	-2.6	40 3	43.0	+2.7
90,000	52 0	49.0	-3 0	52.0	56.0	+4 0
1,00,000	55 0	51 5	-3 5	55 0	58.8	+3.8
3,00,000	78 8	68.5	-10.3	78.8	75 6	-3 2
5,00,000	84.0	71.9	-12.1	84.0	79.0	-5 0
10,00,000	88 0	74.4	-13.6	88 0	81.5	-6.5
20,00,000	89 9	75.7	-14.2	89 9	82 7	-7.2
30,00,000	90 6	76 1	-14 5	90 6	83 2	-7 4

SOURCE: Explanatory Memorandum on the Budget of the Central Government for 1957-58 and 1958-59.

TABLE 3

Tax as Percentage of Earned Income—India Compared with Certain Advanced Countries

(Married individual with two children)

Income (Rs.)	(£)	*India* 1960-61 (Re.= 1s. 6d)	*U.K.* 1960-61	*West Germany* (DM 12=£1)	*France* (NF13 80 =£1)	*Norway* (Kr20 =£1)	*U.S.A* ($2.80 =£1)	*Canada* ($2.75 =£1)	*Japan* (Yen 1008 =1£)
13,333	1,000	6 4	7.7	10 9	3.8	11.4	2.9	..	15.6
26,666	2,000	16 5	18.8	18 2	9 3	30.8	11 4	7 5	23.0
40,000	3,000	26 3	25 1	23 1	13 7	42.1	14 8	11.8	27.5
53,333	4,000	34 5	30.4	26.5	16.9	49 1	16.9	15 1	30.6
66,666	5,000	40 7	35 4	29.4	20.4	54 6	18.7	18 3	33.3
80,000	6,000	46 0	39 6	31.9	22 9	58.3	19.9	21.6	35.3
93,333	7,000	49.8	43.3	33 8	24 6	60.9	21.6	24.5	37.2
1,06,666	8,000	53.1	46 2	35.5	25.9	62.8	23.1	27.1	38.8
1,20000	9,000	55.7	48 9	36.9	27.8	64.4	24.8	29.1	40.1
1,33,333	10,000	57.9	51.2	38 2	29 4	65.6	26 4	30 7	41.1
2,00,000	15,000	64 2	62 0	43 2	34 3	69.2	33.8	37 1	45.7
2,66,666	20,000	67 4	68 7	46 5	38.3	71.0	39.9	41.4	48 0
3,33,333	25,000	69.3	72 7	48 6	41.2	72.1	44.5	44 5	50 4
Maximum Marginal Rate		77	88 75	57 24	66	76 5	91	80	70
Applies above the Income of Rs.		1,00,000	2,04,000	2,52,000	2,17,333	50,667	19,16,000	19,53,333	6,61,376

Source. Data furnished by Hindustan Lever Ltd., Bombay, data in respect of Japanese rates were furnished by the Embassy of Japan.

TABLE 4

Tax as Percentage of Earned Income—India Compared with Certain Developing Countries

(Married individual with two children)

Income (Rs.)	(£)	*India* 1960-61 (Re.= 1s 6d)	*Pakistan* 1959-60 (Re.= 1s. 6d.)	*Ceylon* 1959-60 (Re.= 1s. 6d.)	*Kenya* 1959	*Nigeria* (*Federal*) 1959-60
13,333	1,000	6.4	5.8	3.8	3.6	3.2
26,666	2,000	16.5	15.2	10.9	9.3	10.7
40,000	3,000	26.3	23.3	17.9	15.7	16.5
53,333	4,000	34.5	32.0	25.0	21.6	21.2
66,666	5,000	40.7	38.7	30.5	26.4	25.5
80,000	6,000	46.0	45.0	35.2	30.4	30.1
93,333	7,000	49.8	50.0	38.8	34.0	33.9
1,06,666	8,000	53.1	53.9	41.4	37.3	36.7
1,20,000	9,000	55.7	56.7	43.5	40.5	38.8
1,33,333	10,000	57.9	59.0	45.1	43.5	40.6
2,00,000	15,000	64.2	66.0	50.1	54.0	51.7
2,66,666	20,000	67.4	69.5	52.6	59.2	57.5
3,33,333	25,000	69.3	71.6	54.1	62.4	61.0
Maximum Marginal Rate		77	80	60	75	75
Applies above the Income of Rs.		1,00,000	76,000	69,000	1,31,733	1,37,067

Source: Data furnished by Hindustan Lever Ltd., Bombay.

TABLE 5

INCOME-TAX AND SUPER-TAX ON INDIVIDUALS—RELATIVE BURDEN ON DIFFERENT INCOME GROUPS

	1957-58					1958-59				
	All Assessees	*Assessees with Income more than Rs. 25,000*	*Assessees with Income more than Rs 50,000*	*Assessees with Income more than Rs. 70,000*	*Assessees with Income more than Rs. 1,00,000*	*All Assessees*	*Assessees with Income more than Rs. 25,000*	*Assessees with Income more than Rs. 50,000*	*Assessees with Income more than Rs 70,000*	*Assessees with Income more than Rs. 1,00,000*
1. Number of Assessees	5,70,172	36,495	9,276	4,709	2,284	7,17,340	39,790	9,993	4,925	2,255
2. Assessed Income (Rs. crores)	605.02	184.44	92.69	66.10	46 10	693 66	197.09	96.68	67.14	44 70
Tax liability (Rs. crores)	90.32	68.73	48 27	38 72	29 60	94 63	71 63	49 48	38.77	28.92
4. Percentages of Totals:										
(1) as Percentage of Total Assessees	100	6 39	1.62	0.82	0.40	100	5.54	1 39	0 68	0 31
(2) as Percentage of Total Assessed Income	100	30 48	15.32	10 93	7 62	100	28 41	13 93	9 67	6.44
(3) as Percentage of Total Tax Liability	100	76 09	53.44	42.87	32 77	100	75 70	52 29	40.97	30.56

SOURCE: *Reserve Bank of India Bulletin*, July 1960 p. 964

TABLE 6

DISTRIBUTION OF DIVIDEND INCOME BY CERTAIN INCOME GROUPS

(Individuals only)

(Amount in Rs crores)

Year	*Total*			*Persons with Income above Rs. 20,000*			*Persons with Income above Rs. 50,000*			*Persons with Income above Rs 1,00,000*		
	Assess-ments	*Income*	*Tax*	*Number of Assessees*	*Dividend Income Assessed*	*Tax*	*Number of Assessees*	*Dividend Income Assessed*	*Tax*	*Number of Assessees*	*Dividend Income Assessed*	*Tax*
1957-58	65,522	31 20	10.57	17,119 (26.1)	22 57 (72 3)	9 86 (93 3)	4,447 (6 8)	14.76 (47.3)	8 06 (76 3)	1,318 (2 0)	9 16 (29.4)	5 77 (54 6)
1958-59	78,197	36 84	11 95	19,984 (25.6)	26 55 (72.1)	11 27 (94.3)	5,191 (6.6)	17 32 (47 0)	9 25 (77.4)	1,442 (1 8)	10 30 (28.0)	6 39 (53 5)

NOTE: Figures in brackets are percentages of the totals.

SOURCE: *All-India Income-tax Revenue Statistics*, 1957-58 and 1958-59, Central Board of Revenue.

TABLE 7

GROSS FIXED ASSET FORMATION IN NON-FINANCIAL NON-GOVERNMENT CORPORATIONS (1950-51—1957-58)

(Rs. crores)

	1950-51		1951-52		1952-53		1953-54	
	Gross Fixed Asset formation	*Percentage Increase in Gross Fixed Assets*	*Gross Fixed Asset Formation*	*Percentage Increase*	*Gross Fixed Asset Formation*	*Percentage Increase*	*Gross Fixed Asset Formation*	*Percentage Increase*
Large Public Companies	46 40	7 1	96 28	13 8	78 74	9.9	36.34	4 2
Small Public Companies	—3 47	—3 8	1 18	1 3	—2 81	—3 1	—8 32	—9 6
Private Companies	18 73	13 5	22 29	14 2	23 20	12 9	49 43	24 4
All Companies	61 66	7 0	119 75	12 7	99 13	9 3	77.45	6 7

	1954-55		1955-56		1956-57		1957-58	
	Gross Fixed Asset Formation	*Percentage Increase*	*Gross Fixed Asset Formation*	*Percentage Increase*	*Gross Fixed Asset Formation*	*Percentage Increase*	*Gross Fixed Asset Formation*	*Percentage Increase*
Large Public Companies	136 80	15.1	133 47	12.8	131.40	11 6	189 67	15 0
Small Public Companies	—1.42	—1 8	—4 94	—6 4	6 55	9.0	14.07	17 7
Private Companies	0 96	0 4	42 37	16 7	26 96	9 5	32 61	10 4
All Companies	136 34	11 0	171 40	12.5	164.91	11 1	236 35	14 3

NOTE: The years referred to are financial years.

SOURCE: A Monograph on Saving in India, National Council of Applied Economic Research, New Delhi (under print).

TABLE 8

Total Number and Paid-up Capital of Companies at Work

(Rs. crores)

As on 31st March	*Number of Companies*	*Paid-up Capital*
1950	27,558	723.9
1951	28,532	775.4
1952	29,223	855.8
1953	29,312	897.6
1954	29,492	941.2
1955	29,625	969.6
1956	29,813	958.2
1957	29,283	1,005.0
1958	28,192	1,049.5
1959[a]	27,376	1,085.6
1960[a]	26,796	1,124.7

[a] Figures are provisional

NOTE Upto 1956, the figures include Government companies also; but until that year Government companies were few in number and they were mostly small in size too.

SOURCE: Monthly Blue Books on Joint Stock Companies in India, Department of Company Law Administration.

TABLE 9

Total Number and Authorized Capital of Newly Registered Companies (1951-59)

(Rs. lakhs)

Years	*Public Companies*		*Private Companies*		*Total*	
	Number	*Authorized Capital*	*Number*	*Authorized Capital*	*Number*	*Authorized Capital*
1951-52	568	N.A.	1,298	N.A.	1,866	15,226
1952-53	287	N.A.	1,046	N.A.	1,333	9,642
1953-54	204	2,294	989	13,245	1,193	15,539
1954-55	211	16,954	992	5,644	1,203	22,598
1955-56	186	6,789	1,262	8,905	1,448	15,694
1956-57	83	5,411	752	3,662	835	9,073
1957-58	64	5,264	879	4,167	943	9,411
1958-59	58	5,867	1,021	12,738	1,079	18,605
1959-60	86	6,614	1,343	6,430	1,429	13,044

Note: As in Table 3, here too, figures up to 1955-56 include Government companies also But as explained earlier, they accounted for a small proportion of the corporate sector till that year.

Source: Monthly Blue Books on Joint Stock Companies in India, Department of Company Law Administration.

TABLE 10

INDICES OF VARIABLE DIVIDEND INDUSTRIAL SECURITIES

Average of Weeks	*Base* 1938=100		*Base* 1949-50=100						*Base* 1952-53=100		
	1951-52	1952-53	1952-53	1953-54	1954-55	1955-56	1956-57	1957-58	1957-58	1958-59	1959-60
1. Tea Plantations									144	145	160.1
2. Coffee Plantations	177	127	89	92	136	185	170	130	182	203	200.3
3. Rubber Plantations									136	151	164.7
4. Coal	126	91	84	78	82	81	78	67	89	107	113.7
5. Other Mining	77	63	120	132	186	235	233	162	145	161	171.5
6. Sugar	97	84	85	85	101	105	105	95	160	164	178.6
7. Cotton Textiles	169	135	94	96	107	118	134	105	120	114	129.2
8. Jute Textiles	100	78	91	82	93	95	70	52	63	80	96.6
9. Silk and Woollen									329	417	663.2
10. Iron and Steel	163	131	97	107	110	154	147	119	116	145	161.0
11. Transport Equipment									175	198	287.6
12. Electrical Machinery									163	143	132.5
13. Machinery other than Electrical and Transport									148	166	198.5
14. Basic Industrial Chemicals	176	135	94	99	132	144	114	131	109	123	166.8

(Contd. below)

TABLE 10—*Contd.*

15. Cement	144	141	113	116	141	164	176	141	125	129	136.0
16. Paper	128	114	151	159	211	256	266	211	160	185	208 9
17. Electricity Generation and Supply	90	83	115	116	123	123	112	103	89	93	89.9
18. Trading									79	88	104 7
19. Shipping and other Transport	99	86	88	94	108	106	118	117	123	134	124 7
20. Construction									198	235	301.0
21. Banks	116	103	85	86	87	88	94	96	169	199	191.8
22. Insurance	112	100	98	97	108	103	87	85	108	127	136.7
23. Investment Trusts	149	139	75	75	90	93	90	73	84	91	99.3
24. General Engineering	172	140	101	113	156	189	188	151	..	.	..
25. Breweries	84	60									
26. Railways	87	75	82	82	88	89	84	70	.	..	..
ALL INDUSTRIES	127 8	107.3	94 0	95.6	112.9	121.6	121.2	100.3	125.4	137.3	155.3

NOTES:(1) In the years 1951-52 and 1952-53, electricity generation and supply includes tramways; cotton textiles include woollen and silk textiles.

(2) In the years 1952-53 to 1957-58 sugar includes breweries: cotton textiles include woollen and silk textiles.

(3) Figures for the year 1957-58 are averages of forty weeks.

SOURCES: Reserve Bank of India: *Report on Currency and Finance*, 1956-57 and 1958-59; *Reserve Bank of India Bulletin*, August 1960, for figures relating only to 1959-60.

TABLE 11—*Contd.*

Calendar Years	*Types of Issue*	*Consents*		
		Public Limited Companies	*Private Limited Companies*	*Total*
1958	(*a*) Share Capital	3,796 10	1,309 65	5,105 75
	(*b*) Debentures	1,748 80	81.00	1,829 80
	Total	5,544 90	1,390 65	6,935 50
1959	(*a*) Share Capital	7,839.97	3,334 41	11,174 38
	(*b*) Debentures	1,230 00	102 00	1,332.00
	Total	9,069.97	3,436 31	12,506 28

SOURCE: Quarterly Statistics on the working of Capital Issues Control—Sixtieth Issue, Office of the Controller of Capital Issues.

TABLE 11—*Contd.*

Calendar Years	Types of Issue	Consents: Public Limited Companies	Consents: Private Limited Companies	Consents: Total
1958	(*a*) Share Capital	3,796.10	1,309 65	5,105 75
	(*b*) Debentures	1,748.80	81 00	1,829 80
	Total	5,544 90	1,390 65	6,935 50
1959	(*a*) Share Capital	7,839 97	3,334 41	11,174 38
	(*b*) Debentures	1,230 00	102 00	1,332.00
	Total	9,069.97	3,436 31	12,506 28

SOURCE: Quarterly Statistics on the working of Capital Issues Control—Sixtieth Issue, Office of the Controller of Capital Issues.

TABLE 12

CAPITAL RAISED BY NON-GOVERNMENT COMPANIES (1957-59)

(Rs crores)

	1957			1958			1959		
	Public	*Private*	*Total*	*Public*	*Private*	*Total*	*Public*	*Private*	*Total*
1. Share Capital	45.05	13 18	58 23	26.37	16 32	42 69	31.14	25 43	56 57
2. Debentures	9 28	0 54	9 82	12 39	0.11	12 50	8 29	0 35	8.64
TOTAL	54 33	13 72	68.05	38 76	16 43	55 19	39.43	25 78	65 21

SOURCE. Reserve Bank of India · *Report on Currency and Finance*, 1959-60, Statement 43.

TABLE 13

STATEMENT SHOWING THE RETAINED PROFITS OF NON-GOVERNMENT NON-FINANCIAL CORPORATIONS

(Rs. crores)

	1950-51	1951-52	1952-53	1953-54	1954-55	1955-56	1956-57	1957-58
1. Public Corporations	23 03	28 43	11 52	18 56	27.49	35 21	26 66	10 58
2. Private Corporations	3.32	4 25	1 64	3 40	4 65	6.52	4 07	1.48
TOTAL	26 35	32 68	13 16	21 96	32.14	41 73	30 73	12 06

SOURCE: A Monograph on Saving in India, NCAER, New Delhi. (under print)

TABLE 14

STATEMENT SHOWING THE COMBINED BURDEN OF INCOME AND WEALTH TAXES ON UNEARNED INCOMES

(1960-61 Rates)

(in rupees)

6 per cent Rate of Average Return on Wealth			*8 per cent Rate of Average Return on Wealth*			*10 per cent Rate of Average Return on Wealth*		
Income before Tax	*Income and Wealth Taxes*	*Disposable Income*	*Income before Tax*	*Income and Wealth Taxes*	*Disposable Income*	*Income before Tax*	*Income and Wealth Taxes*	*Disposable Income*
20,000	3,660	16,340	20,000	2,830	17,170	20,000	2,330	17,670
30,000	9,624	20,376	30,000	8,374	21,626	30,000	7,624	22,376
40,000	16,684	23,316	40,000	15,024	24,976	40,000	14,024	25,976
55,000	29,394	25,606	55,000	27,099	27,901	55,000	25,724	29,276
70,000	43,291	26,709	70,000	40,374	29,626	70,000	38,624	31,376
85,000	59,479	25,521	85,000	54,849	30,151	85,000	52,724	32 276
1,00,000	75,829	24,171	1,00,000	69,574	30,426	1,00,000	66,824	33,176
1,50,000	1,31,824	18,176	1,50,000	1,20,944	29,051	1,50,000	1,15,324	34,676
2,00,000	1,90,484	9,516	2,00,000	1,73,824	26,176	2,00,000	1,64,824	35,176
2,50,000	2,49,164	836	2,50,000	2,28,324	21,676	2,50,000	2,15,824	34,176
2,54,860	2,54,860	0	3,00,000	2,82,824	17,176	3,00,000	2,67,824	32,176
3,00,000	3,07,824	—7,824	4,00,000	3,91,824	8,176	4,00,000	3,71,824	28,176
4,00,000	4,25,164	—25,164	4,90,850	4,90,850	0	5,00,000	4,75,824	24,176
5,00,000	5,42,824	—42,824	5,00,000	5,00,824	—824	10,00,000	9,95,824	4,176
10,00,000	11,29,164	—1,29,164	10,00,000	10,45,824	—45,824	11,04,400	11,04,400	0
						15,00,000	15,15,824	—15,824

NOTE: (1) Tax liabilities are applicable to the unearned incomes of individuals with more than one child.
(2) No allowance is made for rebates provided for insurance premiums etc. or for exemption of certain types of income.

TABLE 15

INDIAN PUBLIC LIMITED COMPANIES—FIXED ASSET FORMATION, PROFITABILITY AND TAX PROVISION

	750 Companies[a]						*1001 Companies*[b]			
	1950	1951	1952	1953	1954	1955	1955	1956	1957	1958
Gross Fixed Assets at the end of the year (Rs. crores)	556	589	635	683	747	827	936	1070	1245	1389
Percentage Rise over the Previous year	..	5.9	7.8	7.6	9.4	10.7	..	14.4	16.3	11.6
Net Fixed Assets at the end of the year (Rs. crores)	302	309	331	355	390	444	531	629	757	852
Percentage Rise	..	2.3	7.1	7.3	9.9	13.8	..	18.4	20.5	12.5
Profitability[c] (Indicator I)	7.7	9.6	5.7	6.8	7.8	9.4	9.1	8.8	6.4	7.1
Profitability[d] (Indicator II)	9.0	10.7	7.6	8.4	9.1	10.2	10.2	9.6	7.5	8.0
Tax Provision as Percentage of Profits before Tax	40	40	44	41	42	39	43	45	48	..

[a] *Reserve Bank of India Bulletin*, September 1957. In terms of paid-up capital, the 750 companies represented two-thirds of the total paid-up capital of all public limited companies (excluding financial institutions at work in the country)

[b] *Reserve Bank of India Bulletin*, September 1960 In terms of paid-up capital, the 1001 companies represented about three-fourths of the total paid-up capital of all public limited companies (excluding financial institutions).

[c] Ratio of profits after tax to net worth. Net worth equals paid-up capital plus al reserves (other than taxation and depreciation reserves) and balance of profits

[d] Gross profits as percentage of total capital employed. Total capital employed equals net fixed assets and circulating capital

NOTE: The years in the table are accounting years of companies ending any time during the twelve-month period from July of the specified year to June of the next year.

TABLE 16

PROFITABILITY OF COMPANIES IN SELECTED COUNTRIES

(Profits after Tax as Percentage of Net Worth)

Countries	1951	1952	1953	1954	1955	1955	1956	1957
India[a]	9.6	5.7	6.8	7.8	9.4	9.1	8.8	6.4
U.S.A.[b]	10.8	9.9	10.4	10.1	12.0			
U.K.[c]	7.9	7.2	7.8	8.4	9.2	9.2	9.4	8.8
Japan[d]	27.6	17.5	16.4	13.1	10.4			

[a] *Reserve Bank of India Bulletin.*
[b] *Federal Reserve Bank Bulletins.*
[c] *London Economist.*
[d] *Economic Statistics of Japan* (Bank of Japan); *Survey of Economic Condition in Japan*, Mitsubishi Economic Research Institute, Tokyo

NOTE The data of each country pertain to samples of selected companies Although not strictly comparable they serve the purpose of a rough comparison.

SOURCE: S L N. Simha, *The Capital Market of India*, Vora & Company Publishers Private Ltd., Bombay.

TABLE 17

SOURCES OF FUNDS FOR GROSS ASSET FORMATION BY COMPANIES

(Percentages)

	750 Companies[a]					*1001 Companies*[b]		
	1951	1952	1953	1954	1955	1956	1957	1958
1. Internal[c] Resources	53	91	84	51	56	37	28	48
2. Share Capital	6	10	12	4	8	8	12	13
3. Borrowing	29	—30	1	30	24	37	43	26
4. Other Sources such as Trade Dues, etc.	12	29	3	15	12	18	17	13

[a] *Reserve Bank of India Bulletin*, September 1957.
[b] *Reserve Bank of India Bulletin*, September 1960.
[c] Includes depreciation reserves, taxation reserves, capitalized reserves, general and other reserves.

TABLE 18

SOURCES OF FUNDS FOR CORPORATIONS

(Percentages)

	India			*U K*			*U.S A*			*Japan*
	1951-55	1956	1957	1951-55	1956	1957	1951-55	1956	1957	1951-55
1. Internal Resources	59 9	37 0	27 6	49 5[a]	51 8[a]	52 0[a]	59 8	54 5	65 3	33 1
2. External Resources of which—as per cent of (2)	40 1	63 0	72 4	50 5	48 2	48 0	40 2	45 5	34 7	66 9
(a) Capital Issues including Debentures	21 2	12 7	15 6	62 0[b]	45 2[b]	66 0[b]	52 0	36 3	76.7	24 7
(b) Bank Borrowings	15 0	40 0	28 3	5 5	12 9	2 3	11 2	10 1	2 3	49 6
(c) Other Sources[c]	63 8	47 3	56 1	32 5	41.9	31 7	36 8	53 6	21 0	25 7

[a] Excluding bonus issues.
[b] Including bonus issues.
[c] Increase in trade dues and current liabilities, all borrowings other than those from banks etc.

SOURCE: S L N. Simha, *The Capital Market of India*, Vora & Co. Publishers Private Ltd., Bombay, p 63.

TABLE 19

ALLOCATION OF CORPORATE PROFITS

(Rs lakhs)

	750 Companies[a]						1001 Companies[b]			
	1950	1951	1952	1953	1954	1955	1955	1956	1957	1958
1. Profits before Tax	63,69	85,16	55,70	65,63	78,46	97,37	118,92	130,88	107,33	119,93
2. Tax Provision percentage of (1)	25,14 (40)	33,61 (40)	24,67 (44)	27,03 (41)	32,66 (42)	37,81 (39)	50,87 (43)	59,10 (45)	51,57 (48)	55,63 (46)
3. Profits after Tax	38,55	51,55	31,03	38,60	45,80	59,56	68,05	71,78	55,76	64,30
4. Profits Distributed Percentage of (1)	23,74 (37)	26,99 (32)	24,46 (44)	26,07 (40)	29,22 (37)	32,22 (33)	38,93 (33)	42,44 (32)	42,22 (39)	46,44 (39)
5. Profits Retained Percentage of (1)	14,80 (23)	24,56 (29)	6,57 (12)	12,53 (19)	16,58 (21)	27,33 (28)	29,12 (25)	29,34 (22)	13,54 (13)	17,86 (15)

[a] *Reserve Bank of India Bulletin*, September 1957.

[b] *Reserve Bank of India Bulletin*, September 1960.

TABLE 20A

DISTRIBUTION OF PRIVATE LIMITED COMPANIES AT WORK

	As on 31st March 1953	*Per cent of Total*	*As on 31st March 1957*	*Per cent of Total*
Total Number of Companies	12,888		16,252	
Companies having Paid-up Capital				
Below Rs 1 lakh	9,033	70	11,175	69
Below Rs 5 lakhs	11,877	92	14,880	92
Below Rs 10 lakhs	12,453	97	15,702	97

NOTE: The above figures exclude companies with nil paid-up capital, that is, moribund companies and those which were registered but had not yet raised Capital.

TABLE 20B

DISTRIBUTION OF NEWLY REGISTERED PRIVATE LIMITED COMPANIES

	1954-55 Number	*Per cent of Total*	*1956-57 Number*	*Per cent of Total*	*1958-59 Number*	*Per cent of Total*
Total Companies	992		764		1037	
Companies with Authorized Capital						
Below Rs 1 lakh	248	25	167	22	249	24
Below Rs 5 lakhs	678	68	458	60	677	65
Below Rs. 10 lakhs	908	92	669	88	939	91

SOURCE. Monthly Blue Books on Joint Stock Companies in India, and Annual Reports on the Working and Administration of the Companies Act, 1956, Department of Company Law Administration.

TABLE 21

New Issues—Amount Sanctioned and Utilized[a]

(Rs. lakhs)

Year	*Sanctioned*			*Utilized*			*Amount Utilized as Percentage of Sanction*		
	Total	*Preference Shares*	*Equity Shares*	*Total*	*Preference Shares*	*Equity Shares*	*Total Col. 5 to Col. 2*	*Preference Shares Col. 6 to 3*	*Equity Shares Col 7 to 4*
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1956	34,84	5,93	28,91	31,51	4,29	27,22	90 4	72 3	94.2
1957	17,55	1,20	16,35	14,37	89	13,48	81.9	74 2	82.4
1958	19,66	3,76	15,90	18,46	3,28	15,18	93 9	87.2	95 5
1959	25,57	2,64	22,93	18,20	1,96	16,24	71 2	74 2	70 8

[a]Only in respect of replies received

TABLE 22

Public Issues—Amount Offered to Public as Percentage of Total Issues

(Rs. lakhs)

Year	*Total Amount of Issues*			*Amount Offered for Public Subscription*			*Public Offer as Percentage of Total Issues*		
	Total	*Preference Shares*	*Equity Shares*	*Total*	*Preference Shares*	*Equity Shares*	*Total*	*Preference Shares*	*Equity Shares*
1956	31,51	4,29	27,22	4,14	2,35	1,79	13.1	54 8	6 6
1957	14,37	89	13,48	1,74	40	1,34	12 1	44 9	9 9
1958	18,46	3,28	15,18	5,96	1,59	4,37	32 3	48 5	28 8
1959	18,20	1,96	16,24	2,03	1,05	98	11 2	53 6	6 0

TABLE 23

PUBLIC ISSUES—OVER-SUBSCRIPTION AND UNDER-SUBSCRIPTION

(Rs. lakhs)

Year		*Total Offered to Public*		*Issues Under-Subscribed*		*Issues Over-Subscribed*	
		Number	*Amount*	*Number*	*Amount*	*Number*	*Amount*
1956	Equity	10	1,79	3	76	2	1,00
	Preference	8	2,35	3	44	3	86
1957	Equity	14	1,34	3	31	4	29
	Preference	7	40	2	16	2	7
1958	Equity	13	4,37	5	2,87	6	1,47
	Preference	6	1,59	1	28	3	1,05
1959	Equity	8	98	..	.	4	95
	Preference	5	1,05	.	..	4	98

TABLE 24

PUBLIC ISSUES—EXTENT OF OVER-AND UNDER-SUBSCRIPTION

(Rs thousands)

Year		*Amount*[a] *Offered to Public*	*Amount Over-Subscribed*	*Over-Subscription as Per cent of Offer*	*Amount*[b] *Offered*	*Amount of Under-Subscription*	*Under-Subscription as Per cent of Offer*
1956	Equity	100,55	196,19	195.1	75,64	24,32	32 2
	Preference	85,74	26,85	31 3	43,93	8,77	20 0
1957	Equity	29,29	26,04	88.9	30,83	21,39	69 3
	Preference	7,00	42	6 0	16,25	10,54	64 9
1958	Equity	147,07	102,96	70 0	287,42	67,58	23 5
	Preference	105,36	22,43	21.3	27,76	25,88	93 2
1959	Equity	95,00	483,62	509 1	..	..	..
	Preference	97,82	50,50	51.6	..	..	.

[a] Amount relating only to those issues which were over-subscribed

[b] Amount relating only to those issues which were under-subscribed.

TABLE 25

PLACINGS OUTSIDE THE PUBLIC MARKET AND THEIR PROPORTIONS TO THE TOTAL ALLOTMENT—EQUITY SHARES

(Rs. thousand)

Year	*Total Allotment*	*Promoters, Managing Agents, Directors etc*	*Foreign collaborators.*	*Existing shareholders by way of "rights"*	*Employees*	*Banks and Financial Institutions*	*L.I.C.*	*Others (not specified)*	*Remaining allotted through the Public Market*
1956	27,06,51	28,35	..	21,16,50	17,10	2,10,90	4,25	1,95,53	1,33,88
		(1.0)	..	(78 2)	(0 6)	(7 8)	(0 2)	(7 2)	(5.0)
1957	13,35,38	3,48,42	..	6,56,94	2,97	34,93	7,00	1,72,38	1,12,74
		(26.1)	..	(49 2)	(0 2)	(2 6)	(0 5)	(12.9)	(8 5)
1958	15,03,75	2,08,81	1,46,27	7,27,29	2,32	25,22	..	39,15	3,54,69
		(13 9)	(9.7)	(48.4)	(0.1)	(1 7)	..	(2 6)	(23.6)
1959	16,10,67	3,93,69	32,44	8,17,65	65	..	2,00,00	67,97	98,27
		(24.5)	(2 0)	(50 8)	.	..	(12.4)	(4.2)	(6.1)

NOTE: Figures in brackets show percentages.

TABLE 26

PLACINGS OUTSIDE THE PUBLIC MARKET AND THEIR PROPORTIONS TO THE TOTAL ALLOTMENT—PREFERENCE SHARES

(Rs. thousands)

Year	Total Allotment	Promoters Managing Agents Directors etc	Foreign collaborators	Existing Shareholders by way of "rights"	Banks and Financial Institutions.	L I.C	Others (not specified)	Remaining allotted through the Public Market
1956	4 20,44	10,35 (2 5)	.	86,18 (20 5)	2,50 (0 6)	23,47 (5.6)	74,20 (17 6)	2,23,74 (53 2)
1957	89,56	4,48 (5 0)		27,50 (30 7)	7,76 (8 7)	9,00 (10 1)	11,59 (12 9)	29,23 (32.6)
1958	3,25,56	48,42 (14 9)	.	89,35 (27 5)	21,87 (6 7)	..	32,97 (10 1)	1,32,95 (40 8)
1959	1,96,50	5,00 (2 6)	4,50 (2 3)	54,76 (27 9)	10,68 (5 4)	11,00 (5.6)	5,97 (3 0)	1,04,59 (53 2)

NOTE: (1) Figures in brackets show percentages.

(2) The figures for total allotment in Tables 25 and 26 differ somewhat from the figures for total utilization in Table 21, owing to the incomplete information regarding allotments of a few issues The difference is, however, so small that it does not affect the analysis

TABLE 27

PUBLIC ALLOTMENTS—EQUITY SHARES

(Rs thousand)

Year	Total allotment	To individuals	Companies Total	Companies Public	Companies Private	Banks and Financial Institutions	L.I C.	Others
1956	88,09	62,68 (71 2)	24,67 (28 0)	11,90 (13 5)	12,77 (14 5)	64 (0 7)	. 10 (0 1)	.
1957	1,07,99	99,57 (92 2)	73 (0 7)	24 (0 2)	49 (0 5)	5,10 (4 7)	2,00 (1 9)	59 (0 5)
1958	2,92,11	1,28,09 (43 9)	1,42,67 (48 8)	1,32,20[a] (45 2)	10,47 (3 6)	11 ..	10,00 (3 4)	11,24 (3 9)
1959	98,27	94,56 (96 2)	3,00 (3 1)	1,82 (1 9)	1,18 (1 2)	24 (0 2)	45 (0 5)	3

[a] Subscription to only one issue

NOTE: Figures in brackets show percentages.

TABLE 28

Public Allotments—Preference Shares

(Rs' thousands)

Year	Total allotment	To individuals	Companies Total	Companies Public	Companies Private	Banks and Financial situations	L.I C.	Others
1956	90 16	45,45 (50 4)	23,86 (26 5)	18,03 (20 0)	5,83 (6 5)	3,01 (3 3)	12,50 (13 9)	5,34 (5 9)
1957	29,23	14,18 (48 5)	3,55 (12 1)	3,05 (10 4)	50 (1 7)	8,50 (29 1)	3,00 (10 3)	
1958	1,32,94	1,01,04 (76 0)	1,98 (1.5)	1,42 (1 1)	56 (0 4)	26,91 (20 2)	2,86 (2 2)	15 (0 1)
1959	44,12	40,99 (92 9)	2,63 (6 0)	1,02 (2 3)	1,61 (3 7)	35 (0 8)		15 (0 3)

Note: (1) Figures in brackets show percentages.
(2) Some public issues for which detailed break-down was not given by the companies have not been included in Tables 27 and 28 above This is why the total allotments in these Tables differ from the figures relating to the public market in Tables 25 and 26 respectively.

TABLE 29

Ownership of Corporate Securities

(Rs crores)

	1950-51	1951-52	1952-53	1953-54	1954-55	1955-56	1956-57	1957-58
Securities held by the Corporate Sector [a]	192.7	206.3	201 1	221 8	233 5	240 5	185 2[b]	194 6
Total paid-up capital of non-Government Corporations	753 1	812 3	850 0	889 5	908 5	960 4	991 3	1036 1

[a] These figures include debentures, but their amount in comparison with shares is quite small.

[b] This decline was due mainly to the nationalization of life insurance business which transferred the securities held by insurance companies to the Government Corporation.

TABLE 30

DIVIDEND INCOME—IMPORTANCE OF DIFFERENT CLASSES OF ASSESSEES

(Rs. crores)

Year	*Total*	*Companies*	*Individuals*	*Registered Firms*	*Un-registered Firms*	*Hindu Undivided Families*
1955-56	45 97	14 85 (32.30)	26.77 (58 23)	..	1 21 (2 63)	3 14 (6.83)
1956-57	55 21	20 33 (36 82)	30 62 (55 46)	0 45 (0 82)	0 92 (1 67)	2 89 (5 23)
1957-58	55 00	18 71 (34 04)	31 20 (56 73)	0 64 (1 16)	0 89 (1 61)	3 56 (6.46)
1958-59	69 54	26 09 (38 52)	36 84 (52 98)	0.94 (0 35)	1 54 (2 21)	4 13 (5 94)

NOTE: Figures in brackets show percentages.

APPENDICES

Appendix 1
Questionnaire issued to Companies

Name of the Company ....

Date of Registration ....

Particulars in respect of capital issue sanctioned by the Controller of Capital Issues in 195 , amounting to

Rs ....

		Preference Shares[a]	Equity (Ordinary) Shares
		(Rs.)	(Rs.)
1.	Amount sanctioned	....	....
2.	Amount utilized in terms of the sanction	.. . .	.. ..
3.	Date or dates of issue	....	....
4.	Amount allotted[b] for consideration other than cash	.. . .	. . ...
5	Amount allotted[b] for cash.	... ...	... .
	Details of the amount allotted[b] for cash:—		
	(*i*) Amount allotted other than as "rights" to Promoters, Managing Agents, Secretaries and Treasurers, Directors of the Company and the "associates" in these cases	. . ..	....
	(*ii*) Allotment made to the existing shareholders of the company by way of "right" issue	.. ..	....
	(*iii*) Allotment made to the existing shareholders in excess of their "rights"	.. ..	.... .
	(*iv*) Amount allotted to employees of the company	. ... . .	. . ..
	(*v*) Special allotments (other than by public subscription) made by prior arrangements to.		
	(a) Banks & financial and investment corporations	....	....
	(b) Life Insurance Corporation	... .	. .. .
	(c) Others (Please specify)	....	....
	(*vi*) Amount allotted to the general public (excluding allotments (*i*) to (*v*) above)	....	....

	Preference shares	Equity (ordinary) shares
	(Rs.)	(Rs.)
6. Amount offered for subscription to the general public. (Excluding allotments under item 5 (*i*) to (*v*))	....	....
7 Whether the entire or a part of the amount offered to the public was underwritten. If so, please specify the amount that was underwritten	....	....
8. Total amount for which applications for subscription were received from the public	....	....
9 Extent of over-subscription or under-subscription (item 8 minus 6)	....	....
10. Amount taken up by the underwriters as a result of under-subscription	....	....
11. Breakdown of allotment made to the public (item 5 (*vi*) above).		
(*i*) To individuals	....	....
(*ii*) Companies	....	....
(a) public limited companies	....	....
(b) private limited companies	....	....
(*iii*) Banks and financial and investment corporations	....	....
(*iv*) Life Insurance Corporation	....	....
(*v*) Others (Please specify)	....	....
12. If the public response under item 8 above was not adequate, what in your opinion were the main causes?	....	....

[a] In the case of preference shares, please give the rate and specify whether these were issued less tax or free of tax

[b] The amounts with respect to subscribed capital and not paid-up capital should be given.

NOTE: The information relating to items (6) to (12) is most important for our purpose. Even if it is not possible for you to furnish us with all the particulars asked for, it would be useful if you could give us information at least regarding these items (6) to (12).

Appendix 2

Questionnaire issued to Individual Investors

Name.................. .. .. Telephone No.......................

Present Address.. .... Occupation.................. ......

....

NATIONAL COUNCIL OF APPLIED ECONOMIC RESEARCH, PARLIAMENT STREET, NEW DELHI-1.

QUESTIONNAIRE

(1) WE WISH TO KNOW INVESTMENT PREFERENCES OF INDIVIDUALS. What would you do if you had a substantial sum to invest in the near future ? (Please indicate the order of preference if you are interested in more than one form of investment.)

(a) Buy equity (ordinary) shares..........
(b) Buy preference shares..........
(c) Buy debentures..........
(d) Buy Government bonds..........
(e) Invest in real estate..........
(f) Start a proprietary business..........
(g) Others (Specify)..........

(2) What do you regard as your chief investment objective ? Please indicate one of the following:

(a) Secure income.......... .
(b) High rate of income return ....
(c) Capital appreciation.......... ..
(d) Hedge against inflation... ....

(3) Which of the following factors significantly affect your decisions to invest ?

(a) Change in income............
(b) Change in cost of living............
(c) Change in rate of return...... .....
(d) Change in level of taxes ....

(4) Do you own any ordinary shares now ? Yes.. ....No..........

If answer "no"

(i) Did you ever own ordinary shares ?... .. ...
(ii) If so, when did you sell them out ?... . .. ...

Please specify reasons:

(a) To make other types of investment such as in Government bonds, debentures, real estate etc. (specify). ... .. .

(b) To have liquid resources for consumption expenditures. . .. .
(c) To meet any emergent expenditures . .. .
(d) To realize gains of capital appreciation.. . .. ...
(e) For tax reasons .... . .
(f) Any other reasons . .

(iii) Approximately, when were the shares (that you sold) acquired ? . . ....

(iv) Did you realize a gain or loss ? ... .

If answer "yes"

(i) By how much have you increased or decreased your total holdings of ordinary shares since January 1956 ? Rs . . . .(Mark + or —)

(ii) When did you increase or decrease your holdings and for what reasons ? .....

. ...

. . . .

(iii) How much of ordinary shares have you bought or sold during the past year ? Bought Rs . . .... Sold Rs. . ....

(5) Have you since January 1956 bought any *new issues* of capital ? Could you give particulars ?

Ordinary Shares Rs.	*Preference Shares* Rs.	*Debentures* Rs.
.. . .	. ...	... .

(6) In buying new issues, which of the following do you prefer ? Please indicate the order of preference.

(a) By established companies ... .
(b) By new companies .. ..
(c) By companies in new industries . .. .
(d) By companies with foreign collaboration .... . .
(e) Any other preference (specify). ... . .

(7) Did you ever purchase any new issues of capital in earlier years ? .. ..

(8) Has your desire to buy such new issues changed?... ... .If so, could you give us the reasons for this change ? . . . .

. .. .

(9) If your holdings of marketable shares have increased since January 1956, has it been at the expense of other investments ? Please specify:

(a) Central Government bonds ....
(b) State Government bonds .. . .
(c) Debentures ....
(d) Life insurance. . ...
(e) Investment in a proprietary concern ....
(f) Investment in a private Limited Company... . ...
(g) Others (specify) ....

(10) If your holdings of marketable shares have decreased since January 1956, what other investments have gone up:

(a) Central Government bonds . ...
(b) State Government bonds ....
(c) Debentures . ...
(d) Life insurance ....
(e) Investment in a proprietary concern ....
(f) Investment in a private Limited Company .. ..
(g) Others (specify) .. . .

(11) We wish to know how answers such as you have given us vary as between different income groups Would you therefore please state to which of the following broad income groups you belong ?

(a) Under Rs. 6,000 per year... ....
(b) Rs. 6,000—Rs. 10,000...........
(c) Rs. 10,000—Rs. 20,000... ....
(d) Rs 20,000—Rs. 50,000...........
(e) Rs 50,000—Rs 1,00,000 .. ..
(f) Above Rs. 1,00,000...........

(12) Have tax considerations been responsible for any change in your investment decisions ? Are there any types of investments in which you have invested more or invested less because of tax consideration ? If so, what were those investments and what were the tax considerations ?

....

. ...

... .

.. . .

(13) What is your opinion as to the most likely trend of general business conditions and share values during the next few years ?

.. ..

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Index